



Committee: GO
Committee Review: At a future date
Staff: Christine Wellons, Senior Legislative Attorney
Purpose: To receive testimony – no vote expected
Keywords: #GroupGRetirement

AGENDA ITEM #13
September 20, 2022
Public Hearing

SUBJECT

Bill 23-22, Personnel and Human Resources – Pension Amount – Group G

Lead Sponsor: Council President at the Request of the County Executive

EXPECTED ATTENDEES

Members of the public

COUNCIL DECISION POINTS & COMMITTEE RECOMMENDATION

- N/A, to receive testimony

DESCRIPTION/ISSUE

Council Bill 23-22 would:

- (1) increase the pension amount for Group G members by applying 5% of average final earnings for each year of credited service received for accumulated sick leave subject to a certain reduction amount; and
- (2) generally revise County law regarding pension at retirement.

SUMMARY OF KEY DISCUSSION POINTS

- The County Executive has proposed Bill 23-22 in order to implement a side letter collectively bargained between the Executive and IAFF dated 2/15/2021.
- The Council discussed this legislation in connection with its adoption of the FY22 Operating Budget. At the time, since the legislation was not yet available, the Council explicitly did not approve funding for the contemplated legislation in the FY22 operating budget.

This report contains:

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Racial Equity and Social Justice Impact Statement	© 9
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M E M O R A N D U M

September 15, 2022

TO: County Council

FROM: Christine Wellons, Senior Legislative Attorney

SUBJECT: Bill 23-22, Personnel and Human Resources – Pension Amount – Group G

PURPOSE: Public Hearing – to receive testimony

Bill 23-22, Personnel and Human Resources – Pension Amount – Group G, sponsored by the Council President at the request of the County Executive, was introduced on July 26, 2022. A public hearing is scheduled for September 20, 2022. A Government Operations and Fiscal Policy Committee worksession will be held at a later date.

The bill would:

- (1) increase the pension amount for Group G members by applying 5% of average final earnings for each year of credited service received for accumulated sick leave subject to a certain reduction amount; and
- (2) generally revise County law regarding pension at retirement.

BACKGROUND

The County Executive has proposed Bill 23-22 in order to implement a side letter collectively bargained between the Executive and IAFF dated 2/15/2021. The Council briefly discussed this legislation in connection with its adoption of the FY22 Operating Budget. At the time, the Council explicitly did not approve funding for the contemplated legislation.

BILL SPECIFICS

Bill 23-22 would increase the annual pension amount for eligible Group G members. Eligible members who are under the Social Security retirement age would receive 5 % of average final earnings for each year of credited service received for accumulated sick leave. Once the member reaches Social Security retirement age, the 5% rate would be reduced by 1.5625 %, for the portion of average final earnings equal to or less than the Social Security maximum covered compensation in effect on the date of retirement.

This packet contains:

Bill 23-22
LRR
Fiscal Impact Statement

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Bill No. 23-22
Concerning: Personnel and Human
Resources – Pension Amount – Group G
Revised: 7/18/2022 Draft No. 1
Introduced: July 26, 2022
Expires: January 26, 2024
Enacted: _____
Executive: _____
Effective: _____
Sunset Date: _____
Ch. _____, Laws of Mont. Co. _____

COUNTY COUNCIL FOR MONTGOMERY COUNTY, MARYLAND

By: Council President at the Request of the County Executive

AN ACT to:

- (1) increase the pension amount for Group G members by applying 5% of average final earnings for each year of credited service received for accumulated sick leave subject to a certain reduction amount; and
- (2) generally revise County law regarding pension at retirement.

By amending

Montgomery County Code
Chapter 33, Personnel and Human Resources
Section 33-42

Boldface	<i>Heading or defined term.</i>
<u>Underlining</u>	<i>Added to existing law by original bill.</i>
[Single boldface brackets]	<i>Deleted from existing law by original bill.</i>
<u>Double underlining</u>	<i>Added by amendment.</i>
[[Double boldface brackets]]	<i>Deleted from existing law or the bill by amendment.</i>
* * *	<i>Existing law unaffected by bill.</i>

The County Council for Montgomery County, Maryland approves the following Act:

Sec. 1. Section 33-42 is amended as follows:

33-42. Amount of pension at normal retirement date or early retirement date.

* * *

(b) *Amount of pension at normal retirement date.*

* * *

(2) Pension amount for an Integrated Retirement Plan member.

* * *

(E) The County must compute the annual pension of a Group G member in the integrated retirement plan who retires on a normal retirement as follows:

(i) from the date of retirement to the month that the member reaches Social Security retirement age, the following percentages of average final earnings apply:

(a) 2 ½ percent, for each of the first 20 years of credited service;

(b) 2 percent, for each year of credited service of more than 20 years to a maximum of 31 years, plus sick leave credits; and;

(c) 5 percent for each year of credited service received for accumulated sick leave; and

- 22 (d) 0 percent for years after year 31 (except sick
 23 leave credits referred to in subclause [(b)] (c));
 24 and
- 25 (ii) from the month the member reaches Social Security
 26 retirement age, the percentages specified in clause (i)
 27 must be reduced, respectively, by the following
 28 percentages of average final earnings for the portion
 29 of any amount equal to or less than the Social
 30 Security maximum covered compensation in effect
 31 on the date of retirement:
- 32 (a) 0.78125 percent, for each of the first 20 years
 33 of credited service; [and]
- 34 (b) 0.625 percent for each year of credited service
 35 of more than 20 years, to a maximum of 31
 36 years, plus sick leave credits; and
- 37 (c) 1.5625 percent, for each year of credited
 38 service received for accumulated sick leave.
- 39 * * *

LEGISLATIVE REQUEST REPORT

Bill XX-22

Fire and Rescue Services – Group G Sick Leave Credit Increase

DESCRIPTION:	This Bill would amend the County Code to increase the pension amount for Group G members by applying 5% of average final earnings for each year of credited service received for accumulated sick leave subject to the appropriate reduction amount.
PROBLEM:	Changes to County pensions require legislation.
GOALS AND OBJECTIVES:	To amend the County Code to implement a negotiated provision in the Collective Bargaining Agreement between Montgomery County and the Montgomery County Career Fire Fighter Association, International Association of Fire Fighters, Local 1664.
COORDINATION:	Office of Labor Relations Montgomery County Employee Retirement Plans
FISCAL IMPACT:	To be requested.
ECONOMIC IMPACT:	To be requested.
EVALUATION:	To be requested.
EXPERIENCE ELSEWHERE:	Unknown.
SOURCE OF INFORMATION:	Jennifer Harling, Esquire Office of Labor Relations
APPLICATION WITHIN MUNICIPALITIES:	N/A
PENALTIES:	N/A

Fiscal Impact Statement
Bill XX-22
Personnel and Human Resources – Amount of Pension at Normal Retirement Date or
Early Retirement Date - Revision

1. Legislative Summary.

The legislation increases the benefit accrual rate to 5.0 percent (from the current level of between 2.0 and 2.5 percent) of average final earnings from retirement to social security retirement age and 3.4375 percent of average final earnings after attaining social security retirement for each year of sick leave credits for Group G members.

2. An estimate of changes in County revenues and expenditures regardless of whether the revenues or expenditures are assumed in the recommended or approved budget. Includes source of information, assumptions, and methodologies used.

FY23 County expenditures increase \$1,108,408 reflecting nine months of the estimated annual amortized County contribution required to support the increased benefit accrual for accumulated sick leave based on actuarial valuation as of July 1, 2021, assuming an October 1, 2022 effective date. The analysis assumes that the additional unfunded liability is amortized over a 20-year period as a level percentage of pay. Current DROP members are not assumed to be affected. This estimate is based on current actuarial assumptions, including 0.029 years of accumulated sick leave per year of credited service. Members may accrue more sick leave in the future due to a change in the benefit accrual rate, which may increase the unfunded liability resulting from the provision. In the event this legislation passes, the annual pension valuation will take these factors into account as new Group G contribution rates and liabilities are calculated. There is no anticipated impact on revenues.

3. Revenue and expenditure estimates covering at least the next 6 fiscal years.

If the existing actuarial assumptions remain constant, the additional contribution over the six-year period is estimated to be \$9,190,045 as shown below. Under the County's funding policy, contributions are calculated as a level percent of payroll. Therefore, the projected dollar contributions for subsequent fiscal years are projected to increase based on increases in total payroll (assumed to be 3 percent). There is no anticipated impact on revenues.

	FY23	FY24	FY25	FY26	FY27	FY28	Six-Year Total
County Contribution - Increase in Sick Leave Benefit Accrual Rate	1,108,408	1,522,213	1,567,880	1,614,916	1,663,364	1,713,264	9,190,045

4. An actuarial analysis through the entire amortization period for each bill that would affect retiree pension or group insurance costs.

Actuarial analysis provided by Gabriel, Roeder, Smith and Company estimates that increasing the benefit accrual rate to 5 percent of average final earnings from retirement to Social Security retirement and 3.4375 percent of average final earnings after attainment of Social Security retirement age for each year of sick leave credits increases actuarial accrued liability for Group G members over a 20-year period by \$12,127,652. The actuarial assumptions used in the analysis are the same as those used in the actuarial valuation of the Montgomery County Employees' Retirement System as of July 1, 2021.

5. An estimate of expenditures related to County's information technology (IT) systems, including Enterprise Resource Planning (ERP) systems.

Not applicable.

6. Later actions that may affect future revenue and expenditures if the bill authorizes future spending.

This bill does not authorize future spending.

7. An estimate of the staff time needed to implement the bill.

Not applicable.

8. An explanation of how the addition of new staff responsibilities would affect other duties.

No change in staff responsibilities is expected due to implementing this legislation.

9. An estimate of costs when an additional appropriation is needed.

FY23 expenditures increase \$1,108,408 to support nine months of the estimated annual County contribution.

10. A description of any variable that could affect revenue and cost estimates.

The impact of increasing the benefit accrual rate on the accrual of sick leave is difficult to estimate. Additional sick leave accrual may increase the unfunded liability resulting from the provision. Similarly, additional accrued sick leave may reduce the need for

backfill overtime to cover sick leave by frontline employees. This impact is also difficult to estimate. The cost estimates provided in this fiscal impact statement are based on the current actuarial assumption of 0.029 years of sick leave per year of credited service. Likewise, no change in the overtime cost of backfilling sick leave use for Group G members is assumed.

11. Ranges of revenue or expenditures that are uncertain or difficult to project.

See answer to Question 10.

12. If a bill is likely to have no fiscal impact, why that is the case.

Not applicable.

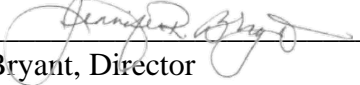
13. Other fiscal impacts or comments.

Not applicable.

14. The following contributed to and concurred with this analysis:

Rachel Silberman, Office of Management and Budget

Yan Yan, Montgomery County Employee Retirement Plans



Jennifer Bryant, Director
Office of Management and Budget

6/28/22

Date




OFFICE OF THE COUNTY EXECUTIVE

Marc Elrich
County Executive

M E M O R A N D U M

June 30, 2022

TO: Gabe Albornoz, President
Montgomery County Council

FROM: Marc Elrich, County Executive 

SUBJECT: Bill No. XX-22, Amendment to Section 33-42 of the Montgomery County Code -
-- Sick Leave Credit Increase

I am transmitting to you Bill No. XX-22, which amends Section 33-42 of the Montgomery County Code. It will increase the pension amount for Group G members by applying 5% of average final earnings for each year of credited service received for accumulated sick leave subject to the appropriate reduction amount.

This amendment is the result of a collectively bargained side letter signed by the parties on February 15, 2021, and discussed at the Council's April 27, 2021, worksession on the collective bargaining agreement with the International Association of Fire Fighters (IAFF). Per the side letter, the County agreed to submit the legislation to Council no later than June 30, 2022.

If you have any questions, please contact Jennifer Harling, Chief Labor Relations Officer, Office of Labor Relations, at 202-570-1501.

Enclosures

Racial Equity and Social Justice (RESJ) Impact Statement

Office of Legislative Oversight

BILL 23-22: PERSONNEL AND HUMAN RESOURCES –PENSION AMOUNT – GROUP G

SUMMARY

The Office of Legislative Oversight (OLO) anticipates that Bill 23-22 could have a minimal, negative impact on racial equity and social justice (RESJ) in the County, as it would potentially reallocate \$1.1 to \$1.7 million annually in funding for programs benefitting all residents to Montgomery County Fire and Rescue Services (MCFRS) employees who are disproportionately White. OLO offers one recommended amendment for Council consideration to improve the RESJ impact of this Bill.

PURPOSE OF RESJ IMPACT STATEMENT

The purpose of RESJ impact statements is to evaluate the anticipated impact of legislation on racial equity and social justice in the County. Racial equity and social justice refer to a **process** that focuses on centering the needs, leadership, and power of communities of color and low-income communities with a **goal** of eliminating racial and social inequities.¹ Achieving racial equity and social justice usually requires seeing, thinking, and working differently to address the racial and social harms that have caused racial and social inequities.²

PURPOSE OF BILL 23-22

The goal of Bill 23-22 is to increase the pension amount for Group G members of the County's Employees' Retirement System (ERS).³ Group G employees include paid firefighter, paid fire officer, and paid fire rescue service personnel.⁴ If enacted, Bill 23-22 will increase the pension benefit of Group G employees by applying 5 percent of average final earnings for each year of credited service received from accumulated sick leave. The 5 percent rate is subject to a reduction amount once the member reaches Social Security retirement age. Group G employees currently receive 2.5 percent of average final earnings for 1 to 20 years of credited service and 2 percent for 21 to 31 years of credited service, including credited service received from accumulated sick leave.⁵

ERS is one of five retirement plans offered to County employees.⁶ The ERS is a defined benefit plan, which provides a fixed, pre-established benefit for employees at retirement.⁷ For Group G employees, credited years of service is one of several factors considered in determining the amount of an employee's pension benefit.⁸ Credited years of service is also a factor in determining when an employee can retire. Group G employees can convert accumulated unused sick leave for up to 2 years of credited service.

At the request of the County Executive, Bill 23-22 was introduced to the Council on July 26, 2022.

In September 2021, OLO published a RESJ impact statement (RESJIS) for Expedited Bill 7-22, Fire and Rescue Services – Credit Service for Group G Members.⁹ OLO builds on Bill 7-22's analysis for this RESJIS.

RESJ Impact Statement

Expedited Bill 23-22

FIRE PERSONNEL AND RACIAL EQUITY

Inequitable policies and practices have put careers in public safety out of reach for many Black, Indigenous, and Other People of Color (BIPOC). While the civil service has been a great pathway into the middle class for many people of color, generally, the higher-paying or more prestigious a job is, the less access BIPOC employees have.¹⁰ In turn, people of color have not been able to land a proportionate share of the higher-paying, higher profile public safety jobs as police officers and firefighters.¹¹

Historically, societal beliefs in White supremacy contributed to the concept that White men were most suited for policing and firefighting because they best demonstrated the traits of manliness, bravery, and nobility.¹² These beliefs extend to perceptions of the prototypical firefighter, despite a rich history of Black firefighting heroes that goes back to the early 19th century.¹³ Beliefs in White supremacy also led to segregated fire stations in the early 20th century. Post segregation, researchers note that racial discrimination was reinforced through nepotism and cronyism, where training and testing became an impermeable barrier for applicants who did not have a family legacy of firefighting (e.g., applicants of color). Conversely, White male recruits often received special mentoring and reduced scrutiny in hiring.¹⁴ Similar exclusions also prevented women from entering law enforcement professions.

Inequitable policies and practices have resulted in the underrepresentation of BIPOC and the over-representation of White people among public safety professionals, including police and fire service personnel. In terms of fire personnel, a review of national data demonstrates these disparities, where among employed people 16 years or older:^{15,16}

- 77.5 percent were White compared to 84.3 percent of firefighters.
- 18.0 percent were Latinx compared to 11 percent of firefighters.
- 12.3 percent were Black compared to 8.9 percent of firefighters.
- 6.6 percent were Asian compared to 2.6 percent of firefighters.

A review of available local data also demonstrates that BIPOC are under-represented among MCFRS personnel. More specifically, among residents 18 years or older:^{17,18}

- 45.6 percent were White compared to 72.6 percent of uniformed MCFRS personnel.
- 18.6 percent were Latinx compared to 7.0 percent of uniformed MCFRS personnel.
- 18.1 percent were Black compared to 9.2 percent of uniformed MCFRS personnel.
- 16.0 percent were Asian compared to 2.2 percent of uniformed MCFRS personnel.

ANTICIPATED RESJ IMPACTS

To consider the anticipated impact of Bill 23-22 on RESJ in the County, OLO recommends the consideration of two related questions:

- Who are the primary beneficiaries of this bill?
- What racial and social inequities could passage of this bill weaken or strengthen?

RESJ Impact Statement

Expedited Bill 23-22

For the first question, OLO considered the demographics of uniformed MCFRS personnel in the County, as they would benefit from the increased pension proposed in this Bill. As described in the 'Fire Personnel and Racial Equity' section, local data suggests that White people are overrepresented among uniformed MCFRS personnel, while BIPOC are underrepresented. Thus, this Bill would disproportionately benefit White MCFRS employees.

For the second question, OLO considered how the Bill could affect representation in firefighting positions, given the pervasive underrepresentation of BIPOC in the profession. While the increased pension could generally attract more people to firefighting roles in the County – in the absence of changes to recruitment strategies, hiring practices, and organizational culture – it is unlikely the incentive alone would attract/retain sufficient BIPOC to reduce existing disparities.

Taken together, OLO anticipates that Bill 23-22 could have a negative impact on RESJ in the County, since it would disproportionately benefit White MCFRS employees and likely not address existing racial disparities among MCFRS personnel. The County's Office of Management and Budget estimates the increased pension proposed in this Bill will cost between \$1.1 and \$1.7 million per year, for a total of \$9.2 million over six years.¹⁹ Given the estimated cost, OLO anticipates the negative RESJ impact will be minimal.

RECOMMENDED AMENDMENTS

The Racial Equity and Social Justice Act requires OLO to consider whether recommended amendments to bills aimed at narrowing racial and social inequities are warranted in developing RESJ impact statements.²⁰ OLO finds that Bill 23-22 could have a minimal, negative impact on RESJ, as it would potentially reallocate \$1.1 to \$1.7 million annually in funding for programs benefitting all residents to MCFRS employees who are disproportionately White.

Should the Council seek to improve the RESJ impact of this Bill through incorporating recommending amendments or introducing companion legislation, the following policies can be considered:

- **Review findings from MCFRS comprehensive equity assessment and implement necessary policy changes/investments for diversifying the MCFRS workforce and addressing other RESJ concerns.** During FY22, MCFRS contracted with the National Academy of Public Administration (NAPA) to conduct a comprehensive equity assessment, including "a review of existing and proposed policies, practices, programs, and services for disparate outcomes based on gender, race, religion, sexual orientation, and other socioeconomic factors."²¹ The report is expected to be completed in September 2022. The Council could use findings from the report to identify and implement policy solutions/investments for diversifying the MCFRS workforce and addressing other RESJ concerns that may arise from the assessment.

CAVEATS

Two caveats to this racial equity and social justice impact statement should be noted. First, predicting the impact of legislation on racial equity and social justice is a challenging analytical endeavor due to data limitations, uncertainty, and other factors. Second, this RESJ impact statement is intended to inform the legislative process rather than determine whether the Council should enact legislation. Thus, any conclusion made in this statement does not represent OLO's endorsement of, or objection to, the bill under consideration.

RESJ Impact Statement

Expedited Bill 23-22

CONTRIBUTIONS

OLO staffer Janmarie Peña, Performance Management and Data Analyst, drafted this RESJ impact statement.

¹ Definition of racial equity and social justice adopted from “Applying a Racial Equity Lens into Federal Nutrition Programs” by Marlysa Gamblin, et.al. Bread for the World, and from Racial Equity Tools. <https://www.racialequitytools.org/glossary>

² Ibid

³ Bill 23-22, Personnel and Human Resources –Pension Amount – Group G, Montgomery County Council, Montgomery County, Maryland, Introduced July 26, 2022.

https://apps.montgomerycountymd.gov/ccllms/DownloadFilePage?FileName=2763_1_22381_Bill_23-2022_Introduction_20220726.pdf

⁴ “Summary Description for Sworn Fire Personnel in Retirement Group G,” Montgomery County Employee Retirement Plans, August 2021. https://www.montgomerycountymd.gov/mcerp/Resources/Files/GroupG%20Sworn%20Fire-08_2021a.pdf

⁵ Ibid

⁶ “About Montgomery County Employee Retirement Plans,” Montgomery County Employee Retirement Plans, Montgomery County, Maryland, Accessed August 8, 2022. <https://www.montgomerycountymd.gov/mcerp/about.html>

⁷ “Defined Benefit Plan,” Internal Revenue Service, Accessed August 8, 2022. <https://www.irs.gov/retirement-plans/defined-benefit-plan>

⁸ “Summary Description for Sworn Fire Personnel in Retirement Group G”

⁹ Racial Equity and Social Justice Impact Statement for Expedited Bill 7-22, Office of Legislative Oversight, Montgomery County, Maryland, April 29, 2022. <https://montgomerycountymd.gov/OLO/Resources/Files/resjis/2022/Bille7-22.pdf>

¹⁰ Ginger Adams Otis, “Why So Few of New York’s Bravest are Black,” The Atlantic, June 6, 2015.

<https://www.theatlantic.com/politics/archive/2015/06/black-firefighters-matter/394946/>

¹¹ Ibid

¹² Clarence Taylor, “Black Firefighters and the FDNY,” Book review of David Goldberg, Black Firefighters and the FDNY: The Struggle for Jobs, Justice, & Equity in New York City, New York Labor History Association, 2021.

http://newyorklaborhistory.org/web/?page_id=1714

¹³ Addington Stewart, “I Was a Firefighter for 35 Years. Racism Today is as Bad as Ever.” The New York Times, September 12, 2018.

<https://www.nytimes.com/2018/09/12/opinion/the-racism-inside-fire-departments.html>

¹⁴ Ibid

¹⁵ Latinx is an ethnicity rather than a race. Therefore, Latinx people are included in multiple racial groups throughout this impact statement, unless where otherwise noted.

¹⁶ “Employed persons by detailed occupation, sex, race, and Hispanic or Latino ethnicity,” Bureau of Labor Statistics, U.S. Department of Labor, 2021. <https://www.bls.gov/cps/cpsaat11.htm>

¹⁷ Table P3: Race for the Population 18 Years and Over, Table P4: Hispanic or Latino, and Not Hispanic or Latino by Race for the Population 18 Years and Over, 2020 Decennial Census, Census Bureau.

¹⁸ OLO analysis of unpublished Office of Human Resources (OHR) data as of May 6, 2022. Note, OHR tracks Latinx as a distinct racial category, thus Latinx people are not included in other racial groups for this variable.

¹⁹ Fiscal Impact Statement, Bill 23-22, Personnel and Human Resources – Amount of Pension – Group G Members, Office of Management and Budget, Montgomery County, MD, June 28, 2022.

²⁰ Bill 27-19, Administration – Human Rights – Office of Racial Equity and Social Justice – Racial Equity and Social Justice Advisory Committee – Established, Montgomery County Council

²¹ Memorandum from Susan Farag to Public Safety Committee, “MCFRS Audit” in Worksession: FY23 Operating Budget Montgomery County Fire and Rescue Service (PDF page 12), Montgomery County Council, Montgomery County, Maryland, April 15, 2022.

https://www.montgomerycountymd.gov/council/Resources/Files/agenda/cm/2022/20220420/20220420_PS3.pdf

Economic Impact Statement

Office of Legislative Oversight

Bill 23-22 Personnel and Human Resources – Pension Amount – Group G

SUMMARY

The Office of Legislative Oversight (OLO) anticipates that enacting Bill 23-22 would have a significant negative impact on economic conditions in the County in terms of the Council's priority indicators. By increasing the benefit accrual rate for accumulated sick leave and potentially affecting employee behavior regarding sick leave accumulation and time of retirement, the Bill would increase total annual pension earnings for current and future Montgomery County Fire and Rescue Services (MCFRS) employees who participate in the Employees' Retirement System. Based on the low rates of County residence among retired and active MCFRS employees, a minor share of the total annual pension increase likely would go to residents. Instead, the Bill likely would generate significant capital outflows in the form of government revenue used to fund pension increases for the majority of retired MCFRS employees who would reside outside the County. OLO expects capital outflows to significantly outweigh the local economic benefits of the change in the pension plan. Moreover, capital outflows caused by the policy change would occur indefinitely if low rates of County residence among MCFRS retirees continue. Because there are no indications current residence patterns among MCFRS employees and retirees will drastically change, OLO believes the negative impacts of the Bill would be significant in the long term.

BACKGROUND

The goal of Bill 23-22 is to amend the County Code to implement a provision collectively bargained between the County Executive and the International Association of Fire Fighters (IAFF).¹ If enacted, the Bill would increase the annual pension amount for Group G members who participate in the Montgomery County Employees' Retirement System.² Eligible Group G members include personnel within the Montgomery County Fire and Rescue Services (MCFRS), namely full-time and career part-time paid firefighters, fire officers, and rescue service personnel.³ For retired MCFRS personnel under the Social Security retirement age, the benefit accrual rate for each year of credited service received for accumulated sick leave would increase to 5% of average final earnings from the current level of between 2% and 2.5%. Once members reach Social Security retirement age, the benefit accrual rate would be 3.4375%.⁴

¹ [Legislative Request Report](#).

² ["Summary Description for Sworn Fire Personnel in Retirement Group G."](#)

³ Ibid.

⁴ [Bill 23-22](#); Wellons to Council, [Memorandum](#); OMB, [Fiscal Impact Statement](#).

Economic Impact Statement

Office of Legislative Oversight

INFORMATION SOURCES, METHODOLOGIES, AND ASSUMPTIONS

Per Section 2-81B of the Montgomery County Code, the purpose of this Economic Impact Statement is to assess the impacts of Bill 23-22 on residents and private organizations in terms of the Council's priority economic indicators and whether the Bill would have a net positive or negative impact on overall economic conditions in the County.⁵

In this statement, OLO identifies the pathways through which Bill 23-22 would increase pension payments to current and future MCFRS employees who participate in the Employees' Retirement System. OLO then estimates: (a) how much of the total annual pension increase likely would go to resident and nonresident households; (b) the value-added from increased household expenditure by County-based pension recipients; and (c) the magnitude of the capital outflow in the form of government revenue used to fund pension increases for nonresidents.

Because OLO does not know how County revenues used to fund the pension increases would otherwise be used in the absence of enacting Bill 23-22, OLO limits the scope of the analysis to the economic impacts of increased pension payments vis-à-vis the estimated capital outflow. That is, this analysis does not account for the economic impacts of alternative government spending or tax cuts in the amount of the capital outflow. Thus, OLO's determination on the Bill's overall economic impact is based on whether the value-added is greater or less than the estimated capital outflow.

The analysis here draws on the following sources of information:

- Interviews with County analysts on the Bill's impact on the pension plan;
- OMB's Fiscal Impact Statement for Bill 23-22;
- Data on the residence of active and retired MCFRS employees provided by the Office of Human Resources (OHR); and
- RIMS II multipliers.

VARIABLES

The primary variables that would affect the economic impacts of enacting Bill 23-22 are the following:

- total annual pension payments;
- place of residence;
- total annual sick leave accumulation;
- average time of retirement; and
- total annual overtime.

⁵ Montgomery County Code, [Sec. 2-81B](#).

Economic Impact Statement

Office of Legislative Oversight

IMPACTS

WORKFORCE ■ TAXATION POLICY ■ PROPERTY VALUES ■ INCOMES ■ OPERATING COSTS ■ PRIVATE SECTOR CAPITAL INVESTMENT ■
ECONOMIC DEVELOPMENT ■ COMPETITIVENESS

Residents

OLO anticipates that Bill 23-22 would have overall negative impacts on County residents.

Resident MCFRS Employees

The Bill would primarily benefit current and future MCFRS employees. By increasing the benefit accrual rate for accumulated sick leave, MCFRS personnel who participate in the Montgomery County Employees' Retirement System would receive a net increase in total pension earnings during their future retirement.

In its Fiscal Impact Statement, the Office of Management and Budget (OMB) estimated the impact of the change in the benefit accrual rate on total County contributions for accumulated sick leave based on 1,166 active Group G members as of July 1, 2021. As indicated in **Table 1**, the rate change would increase total County contributions by \$9,190,045 over the next six fiscal years,⁶ with an average annual increase of \$1,598,269.⁷ The average per employee County contributions would be \$7,882 over six years and \$1,371 per year on average. Holding all else equal, increases in County contributions for accumulated sick leave would increase household income for future MCFRS retirees.

Table 1. County Contributions from the Increase in Sick Leave Benefit Accrual Rate (\$)

	Total County Contributions	Per Employee Contributions
FY23 (9 months)	1,108,408	951
FY24	1,522,213	1,306
FY25	1,567,880	1,345
FY26	1,614,916	1,385
FY27	1,663,364	1,427
FY28	1,713,264	1,469
Six-Year Total	9,190,045	7,882
Annual Average	1,598,269	1,371

The Bill may also affect pension earnings through behavioral changes regarding sick leave accumulation and/or time of retirement which are unaccounted for in OMB's estimates due to their difficulty to estimate.⁸ If the change in the benefit accrual rate incentivizes certain MCFRS personnel to accumulate more sick leave than they otherwise would in the absence

⁶ OMB estimated the fiscal impact of the Bill for 9 months of FY23. The annual averages reflect 5.75 years, not 6.

⁷ OMB, [Fiscal Impact Statement](#).

⁸ Ibid.

Economic Impact Statement

Office of Legislative Oversight

of the policy change, they would experience a net increase in their monthly pension payments. If the change incentivizes certain MCFRS personnel to retire earlier than they otherwise would absent the benefit change, they would receive monthly pension payments at an earlier age.

Importantly, the Bill's impacts to County residents (as well as businesses) largely would depend on how many affected MCFRS employees *reside within the County*.

Data from the Office of Human Resources (OHR) on the residence of *active* and *retired* County employees indicate that far fewer MCFRS employees who would reside within the County during retirement would benefit from the pension increase than those who would reside outside the County. As shown in **Table 2**, 19% (242) of active MCFRS personnel reside in the County and 81% (1,004) reside elsewhere. (MCFRS personnel are an outlier in this way, as 60% of non-MCFRS employees reside in the County.)

Given the region's comparatively high rates of senior net migration losses due largely to lack of affordability,⁹ it is unsurprising that fewer current pension recipients reside locally than active MCFRS employees. In fact, 15% of retired MCFRS employees and beneficiaries (e.g., surviving spouse) who participate in the Employee's Retirement System currently live in the County. See **Table 2**.

Thus, OLO anticipates the pension increases would positively impact a minor segment of County residents.

Table 2. Place of Residence for Active and Retired MCFRS Employees

	Montgomery, MD	Other Jurisdictions
Active MCFRS Employees	242	1,004
	19%	81%
Retired MCFRS Employees and Beneficiaries	76	516
	15%	85%

Data Source: OHR

Capital Outflow

While County-based MCFRS retirees would benefit from Bill 23-22, OLO believes its overall economic impact on residents would be negative because it likely would result in a significant capital outflow in the form of government revenue flowing out of the County to nonresident households.

Table 3 presents estimates of the amount of County contributions that would go towards resident and nonresident pension earnings, based on current residence of retired MCFRS employees and their beneficiaries. As shown in **Table 3**,

⁹ See, for example, Ostrowski, "[Best and Worst States for Retirement 2022](#)"; and Frey, "[How migration of millennials and seniors has shifted](#)."

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the average annual pension increase likely would be \$239,740 for residents and \$1.4 million for nonresidents over the next six fiscal years. The average annual net capital outflow likely would be \$1,118,788.

Table 3. County Contributions by Residence

	County Contributions	Residents 15%	Nonresidents 85%	Difference
FY23	1,108,408	166,261	942,147	(775,886)
FY24	1,522,213	228,332	1,293,881	(1,065,549)
FY25	1,567,880	235,182	1,332,698	(1,097,516)
FY26	1,614,916	242,237	1,372,679	(1,130,441)
FY27	1,663,364	249,505	1,413,859	(1,164,355)
FY28	1,713,264	256,990	1,456,274	(1,199,285)
Six-Year Total	9,190,045	1,378,507	7,811,538	(6,433,032)
Annual Average	1,598,269	239,740	1,358,528	(1,118,788)

Even when accounting for the multiplier effect of increasing pension payments to County residents, the change in law would result in a net capital outflow. The multiplier effect captures how changes in economic activity affect other rounds of spending, and how additional spending impacts certain economic indicators. To illustrate, an increase in household income may in turn increase demand for local restaurants, resulting in restaurant owners hiring more workers.

Using the Regional Input-Output Modeling System (RIMS II) “final-demand multipliers” for Montgomery County developed by the U.S. Bureau of Economic Analysis,¹⁰ OLO estimates the \$239,740 increase in the average annual pension payments to residents would increase household spending, resulting in an additional \$118,336 in value-added, i.e., the total value of income generated from production (equivalent to gross domestic product). However, as shown in **Table 4**, the combined economic impact of the pension gain to residents and value-added does not make up the total difference of the capital outflow.

Table 4. Estimated Net Capital Outflow

	Residents	Nonresidents	Difference
Annual Average	239,740	1,358,528	(1,118,788)
Value-Added	118,336	.	.
Combined	358,076	.	(1,000,452)

In sum, Bill 23-22 would increase pension earnings for certain MCFRS retirees who would reside in the County during retirement. Other residents would benefit from the value-added generated through increased household spending, for example, increased employment and earnings. However, these secondary impacts likely would be marginal on an annual

¹⁰ U.S. Bureau of Economic Analysis, RIMS II.

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basis. More importantly, OLO anticipates the capital outflows to nonresident pension recipients to significantly outweigh the benefits to residents. For this reason, the Bill likely would have an overall negative economic impact on residents.

Beyond these impacts, OLO does not expect the Bill to affect other priority indicators of the Council.

Businesses, Non-Profits, Other Private Organizations

OLO anticipates that enacting Bill 23-22 would have mixed, yet overall negative, impacts on private organizations in the County. Higher pension payments to residents likely would increase household spending on goods and services, benefiting certain County-based businesses. However, as indicated in **Table 4**, the value-added generated from greater household spending would not make up the total difference of the net capital outflow. OLO expects this loss of economic activity to result in foregone business income and employment.

Net Impact

In sum, based on the low rates of County residence among currently retired and active MCFRS employees, Bill 23-22 likely would generate significant capital outflows in the form of government revenue used to fund pension increases for the majority of retired MCFRS employees who would reside outside the County. OLO expects capital outflows to significantly outweigh the increase in pension earnings to resident MCFRS retirees and the value-added from increased household spending on an annual basis. Moreover, if rates of County residence among MCFRS retirees continue, capital outflows caused by the change in the pension plan would occur indefinitely. OLO sees no indication current residence patterns among MCFRS employees and retirees will drastically change. Therefore, OLO believes the negative impacts of the Bill would be significant in the long term.

DISCUSSION ITEMS

Not applicable

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CAVEATS

Two caveats to the economic analysis performed here should be noted. First, predicting the economic impacts of legislation is a challenging analytical endeavor due to data limitations, the multitude of causes of economic outcomes, economic shocks, uncertainty, and other factors. Second, the analysis performed here is intended to *inform* the legislative process, not determine whether the Council should enact legislation. Thus, any conclusion made in this statement does not represent OLO’s endorsement of, or objection to, the Bill under consideration.

CONTRIBUTIONS

Stephen Roblin (OLO) prepared this report.