

**F10A02**  
**Office of Personnel Services and Benefits**  
**Department of Budget and Management**

***Operating Budget Data***

(\$ in Thousands)

	<b>FY 04</b>	<b>FY 05</b>	<b>FY 06</b>	<b>FY 05-06</b>	<b>% Change</b>
	<b><u>Actual</u></b>	<b><u>Working</u></b>	<b><u>Allowance</u></b>	<b><u>Change</u></b>	<b><u>Prior Year</u></b>
General Fund	\$6,957	\$8,735	\$78,584	\$69,849	799.7%
Special Fund	0	0	0	0	
Reimbursable Fund	<u>3,945</u>	<u>4,390</u>	<u>3,957</u>	<u>-433</u>	<u>-9.9%</u>
<b>Total Funds</b>	<b>\$10,901</b>	<b>\$13,125</b>	<b>\$82,540</b>	<b>\$69,416</b>	<b>528.9%</b>
Contingent & Back of Bill Reductions			-51	-51	
<b>Adjusted Total</b>	<b>\$10,901</b>	<b>\$13,125</b>	<b>\$82,489</b>	<b>\$69,364</b>	<b>528.5%</b>

- The Office of Personnel Services and Benefits' (OPSB) has requested two fiscal 2005 deficiencies. The first, for \$15.0 million, is to supplement the appropriation for fiscal 2005 to provide funds for the estimated costs of health insurance based on the health enrollment period covering January through June 2005. General funds (\$1,354,051) and special funds (\$13,645,949) available through the proceeds from the demutualization of the Metropolitan Life Insurance Company are used to cover this expenditure. The second general fund deficiency of \$5 million is to provide funds for the estimated increased cost of the State's workers' compensation claims based on claims activity through November 2004.
- OPSB's budgetary increases are due to the inclusion of statewide expenditures in the allowance. General funds for the 2.0% general salary increase add \$52.7 million, Annual Salary Review (ASR) and Judicial Compensation Commission recommendation funds add \$1.3 million, and statewide health insurance costs in fiscal 2006 add approximately \$17.2 million.
- The fiscal 2006 deferred compensation contribution funding (\$51,362) for the State's match of up to \$600 in 401(k) fund contributions is withdrawn contingent upon budget reconciliation legislation.

Note: Numbers may not sum to total due to rounding.

For further information contact: Lori J. O'Brien

Phone: (410) 946-5530

## Personnel Data

	<u>FY 04</u> <u>Actual</u>	<u>FY 05</u> <u>Working</u>	<u>FY 06</u> <u>Allowance</u>	<u>FY 05-06</u> <u>Change</u>
Regular Positions	142.00	138.00	121.00	-17.00
Contractual FTEs	<u>2.50</u>	<u>5.90</u>	<u>2.50</u>	<u>-3.40</u>
<b>Total Personnel</b>	<b>144.50</b>	<b>143.90</b>	<b>123.50</b>	<b>-20.40</b>

### *Vacancy Data: Regular Positions*

Turnover, Excluding New Positions	3.87	3.20%
Positions Vacant as of 12/31/04	14.0	10.14%

- As of December 31, 2004, the agency had 14.0 full-time equivalent (FTE) vacancies. However, of the 17.0 positions from OPSB scheduled for abolition, 6.0 are vacant. If those positions are excluded from the current number of vacancies, the recalculated vacancy rate would be 5.8%, indicating that OPSB has more vacancies than necessary to support its turnover rate.
- Of the 17.0 FTE positions scheduled for abolition in the allowance, 6.0 are from the Division of Employee Development and Training, which is abolished. The remaining abolitions are dispersed among the other divisions.

## Analysis in Brief

### **Major Trends**

***Employee Retention Rate Continues to Decline:*** The retention rate for agencies in the State Personnel Management System and in Maryland Department of Transportation agencies has declined from 93.3% in fiscal 2001 to 90.5% in fiscal 2004.

### **Issues**

***Statewide Personnel Expenditures Grow 4.6% in Fiscal 2006:*** Regular employee personnel expenditures increase \$216.7 million, or 4.2% in the allowance. The allowance does not include the special and federal funds for the 2% general salary increase. After adjusting for those costs, the allowance grows \$238.5 million, or 4.6%. Components of this growth are discussed in detail in the Issues section.

***Chipping Away at Health Insurance Costs:*** The allowance provides \$128.9 million less than is required to fund the current State employee health insurance program in fiscal 2006. The Administration is working with the General Assembly on resolving this funding gap. The impact on

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employees and retirees of shifting these costs to program participants and alternative measures is discussed.

***How Many “At-will” Employees Are Employed by the State?:*** The growth in the number of special appointments and other “at-will” employees since 1996 personnel reform legislation is described.

**Recommended Actions**

	<u><b>Funds</b></u>
1. Amend Section 18.	
2. Add section limiting the number of positions added during the fiscal year.	
3. Add section requiring reporting of regular positions.	
4. Add section requiring the continued use of certain subobjects.	
5. Add section limiting the number of full-time equivalent positions in fiscal 2006.	
6. Add section requiring reporting of fiscal year costs of collective bargaining agreements.	
7. Add section requiring quarterly reporting of Executive Pay Plan salaries.	
8. Increase turnover expectancy to better reflect the number of actual vacancies.	\$ 75,000
9. Delete funding in the Department of Budget and Management for upfront funding of eMaryland Marketplace vendor winning bid fee.	1,400,000
10. Adopt narrative requiring the Annual Report of State Personnel.	
<b>Total Reductions</b>	<b>\$ 1,475,000</b>

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**F10A02**  
**Office of Personnel Services and Benefits**  
**Department of Budget and Management**

*Operating Budget Analysis*

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**Program Description**

The Office of Personnel Services and Benefits (OPSB) provides policy direction for the human resources system established by the State Personnel and Pensions Article. The Executive Director manages OPSB and administers State personnel policies and the health benefit program. Specific functions within OPSB include salary administration and classification, recruitment and examination, employee relations, employee benefits, and medical services. It shares responsibility with State agencies for the administration of personnel functions through policy development, guidance, and interpretation.

Primary Managing for Results goals include provisions that:

- employees in the State Personnel Management System (SPMS) will be retained;
- health plan vendors meet quality standards of performance;
- the salary system promotes recruitment and retention of a qualified State workforce; and
- services provided by State health plan vendors meet quality standards of performance.

**Performance Analysis: Managing for Results**

One of the most important measures over which the Department of Budget and Management (DBM) has some degree of control is the retention rate<sup>1</sup> for employees in grades 1 to 26. Between fiscal 2001 and 2004, the years for which actual performance data are available, OPSB showed a decline from 93.3 to 90.5%, demonstrated in **Exhibit 1**.

OPSB's declining performance under its stated goal, to maintain or improve the retention rate for SPMS and certain Maryland Department of Transportation (MDOT) employees, likely has a lot to do with available salaries; however, it also has a lot to do with more qualitative measures. Ongoing position abolitions and State government's continuing fiscal distress may create an atmosphere of apprehension amongst employees. Questions abound over whether abolition decisions are "neutral" or whether they are made based on performance or other factors.

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<sup>1</sup> The retention rate is 100%, less the percentage of all separations. The percentage of all separations is the total of all separations divided by the average number of filled positions. All separations are defined as resignations, terminations, deceased employees, retired employees, and "resigned/employed" at the University of Maryland.

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**Exhibit 1**  
**Program Measurement Data**  
**DBM – Office of Personnel Services and Benefits**  
**Fiscal 2001 – 2004 Actuals**

	<u>Actual</u> <u>FY 2001</u>	<u>Actual</u> <u>FY 2002</u>	<u>Actual</u> <u>FY 2003</u>	<u>Actual</u> <u>FY 2004</u>	<u>Avg.</u> <u>Ann.</u> <u>Chg.</u> <u>FY 01-04</u>
Maintain or improve retention rate in SPMS and in certain MDOT agencies <sup>1</sup>	93.3%	92.3%	91.5%	90.5%	<b>-1.0%</b>
Percent of employees evaluated using the Performance Planning and Evaluation Program (PEP) – goal 85%	78.0%	73.6%	61.0%	66.0%	<b>-5.4%</b>

<sup>1</sup>MDOT data exclude the Maryland Port Administration and the Maryland Transit Administration for which DBM does not have data in its main frame database.

Source: Department of Budget and Management

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Only 66% of employees were evaluated using the Performance Planning and Evaluation Program (PEP) in fiscal 2004, shown in Exhibit 1, leaving many employees with little basis for learning how their performance is perceived. Further, funds for statewide training provided through DBM have been significantly reduced in the strategic budgeting process; agencies will be expected to create their own training opportunities. If adequate agency oversight is not provided by DBM in certain areas, management training, for example, employees may or may not in turn be provided with consistently adequate oversight. In short, the retention rate reflects both tangible and intangible quality of work life issues, and the statistic is not moving in the right direction.

**The Department of Legislative Services (DLS) recommends that DBM explain the lack of improvement in the retention rate and the inadequate number of employees evaluated using PEP, and describe plans to effect improvement in these two measures. DLS also recommends that DBM provide information on the types of training it will be providing to agencies or be making available to agencies, given the dissolution of the Division of Employee Development and Training.**

## **Health Plan Vendors' Performance**

For calendar 2002, DBM published a MFR performance measure demonstrating the percentage of health plan vendors who meet 80% of the contractual performance standards on an annual basis, as reported in the quarterly performance standard report submitted by each vendor. Publications prior to the 2006 Governor's budget books showed calendar 2002 as a 91% compliance result. In the budget books submitted in January 2005, the calendar 2002 performance measure was revised to 66.7% to reflect the findings of the annual plan performance audit conducted by the State's contract auditor. Earlier availability of these findings could have provided employees and retirees with helpful information when choosing a health insurance provider and could have provided DBM with useful data when establishing a technical rating during the procurement process for new health plan vendors. **DLS recommends that DBM discuss how this oversight happened and what it intends to do to ensure that it does not happen in the future.**

## **Fiscal 2005 Actions**

### **Proposed Deficiency**

OPSB has two fiscal 2005 deficiencies. The first, for \$15.0 million, is to supplement the appropriation for fiscal 2005 to provide funds for the estimated costs of health insurance based on health enrollment period covering January through June 2005. General funds (\$1,354,051) and special funds (\$13,645,949) available through the proceeds from the demutualization of the Metropolitan Life Insurance Company are used to cover this expenditure.

The second general fund deficiency is to provide \$5.0 million for the estimated cost of State's workers' compensation claims based on activity through November 2004. In fiscal 2004, medical inflation, more aggressive settlement activity, and the effect of the Harris decision<sup>2</sup> all had an impact on accelerating workers' compensation claims costs. Those trends continue into fiscal 2005.

## **Governor's Proposed Budget**

Increases in the Governor's allowance in OPSB, demonstrated in **Exhibit 2**, are dominated again by statewide compensation enhancements. Funds for these enhancements will be transferred from DBM to individual agencies by budget amendment. Included in OPSB's budget is \$52.5 million for the general fund portion of the 2.0% general salary increase, \$132,000 for annual salary review upgrades in the Fire Marshal's office, \$1.1 million for Judicial Compensation Commission recommended salary actions, and \$17.2 million in health insurance funding.

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<sup>2</sup> In *Harris vs. Board of Education of Howard County*, the definition of what constitutes a workers' compensation claim was broadened. It no longer required that an injury had to result from "unusual activity" but that it had to be an injury that arose "out of and in the course of employment" only.

**Exhibit 2**  
**Governor's Proposed Budget**  
**Office of Personnel Services and Benefits**  
(\$ in Thousands)

<b>How Much It Grows:</b>	<b>General Fund</b>	<b>Reimbursable Fund</b>	<b>Total</b>
2005 Working Appropriation	\$8,735	\$4,390	\$13,125
2006 Governor's Allowance	78,584	3,957	82,540
Contingent & Back of Bill Reductions	<u>-34</u>	<u>-17</u>	<u>-51</u>
<b>Adjusted Allowance</b>	<b>\$78,550</b>	<b>\$3,939</b>	<b>\$82,489</b>
Amount Change	\$69,815	-\$451	\$69,364
Percent Change	799.3%	-10.3%	528.5%

**Where It Goes:**

**OPSB Personnel Expenses**

Increments .....	\$183
Retirement .....	56
Reclassifications and hiring above the minimum .....	32
Workers' compensation premium assessment .....	16
17.0 abolished positions .....	-976
Funding for 2005 abolitions removed in fiscal 2006 and lower salary base due to staff turnover.....	-348
Reduction of 3.4 FTE contractual positions .....	-105
Employee and retiree health insurance .....	-64
Turnover and cost containment adjustments .....	-21
Other OPSB personnel expenses .....	-33

**Statewide Personnel Expenditures**

Net increase for 2.0% general salary increase (full general fund cost: \$52.5 million).....	51,521
Statewide health insurance costs .....	17,155
Judicial Compensation Commission recommended salary enhancements .....	1,135
Employee Awards.....	-13
Net increase for Annual Salary Review for Deputy State Fire Marshal classification series (total cost \$134,000) .....	10

**Other Changes**

Upfront general fund funding of eMaryland Marketplace in anticipation of establishing a reimbursable funding mechanism for the bidding component during fiscal 2006.....	1,400
Server enhancement contracts .....	511

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**Where It Goes:**

Stateside education and training contracts (Division of Employee Development and Training Eliminated).....	-495
Office of Administrative Hearings .....	-277
Other contractual services.....	-193
Postage, telephone, telecommunication, and other communication expenses.....	-90
Travel.....	-27
Office supplies and equipment replacement.....	-7
Fixed charges, primarily subscriptions and association dues .....	-6
<b>Total</b>	<b>\$69,364</b>

Note: Numbers may not sum to total due to rounding.

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**Impact of Strategic Budget Reductions**

OPSB is making a number of agency-level organizational changes as the result of the strategic budgeting process. DBM has identified almost \$1 million in general fund reductions in OPSB, primarily as the result of the abolition of 17.0 full-time equivalent (FTE) positions (**Exhibit 3**). OPSB does not anticipate reductions in service resulting from most of these changes. The exception is in the Division of Employee Development and Training (EDT), which will not be funded as a division in fiscal 2006. EDT provided training to other agencies within the State and was funded through reimbursable funds for that training; general funds were used for program support. OPSB reports that agencies themselves will continue to provide training, arranged at the agency level, and will utilize private sector training opportunities. Some personnel-related training will still be provided with existing OPSB staff. Other nonpersonnel related division-level changes include automating the MS-310 process, through which personnel actions are reported to OPSB.

**Exhibit 3**  
**Office of Personnel Services and Benefits**  
**Positions Scheduled for Abolition in Fiscal 2006**

<u>Classification Title</u>	<u>Filled Positions</u>		<u>Vacant Positions</u>		<u>Programmatic Impact</u>
	<u>FTEs</u>	<u>Salary</u>	<u>FTEs</u>	<u>Salary</u>	
<b>OPSB – Executive Direction</b>					
Personnel Administrator I	1.00	\$56,852			None
Program Manager Senior I			1.00	\$59,740	None
<b>Division of Employee Benefits</b>					
Administrative Specialist III	1.00	39,265			None
<b>Division of Employee Relations</b>					
Administrative Officer II	1.00	45,925			None
Data Entry Operator II	1.00	22,833			None
Personnel Analyst			1.00	38,007	None
Personnel Associated I			1.00	35,215	None
Personnel Associate III	1.00	39,632			None
<b>Division of Employee Development and Training</b>					
Administrative Specialist III	1.00	40,007			Division will be eliminated. Agencies will provide their own training and will utilize private sector resources. Personnel-related training will be provided elsewhere in OPSB.
Employee Training Specialist I	1.00	37,761			
Office Secretary II	1.00	29,315			
Personnel Administrator I	1.00	56,316			
Program Manager III			1.00	52,449	
Program Manager Senior I	1.00	82,642			
<b>Division of Salary Administration and Position Classification</b>					
Personnel Administrator IV			1.00	49,157	None
<b>Division of Recruitment and Examination</b>					
Personnel Associate II	1.00	36,836			None
<b>State Labor Relations Board</b>					
Administrative Officer II			1.00	31,416	None
<b>Total Strategic Budgeting Reductions</b>					
	<b>11.00</b>	<b>\$487,384</b>	<b>6.00</b>	<b>\$265,984</b>	

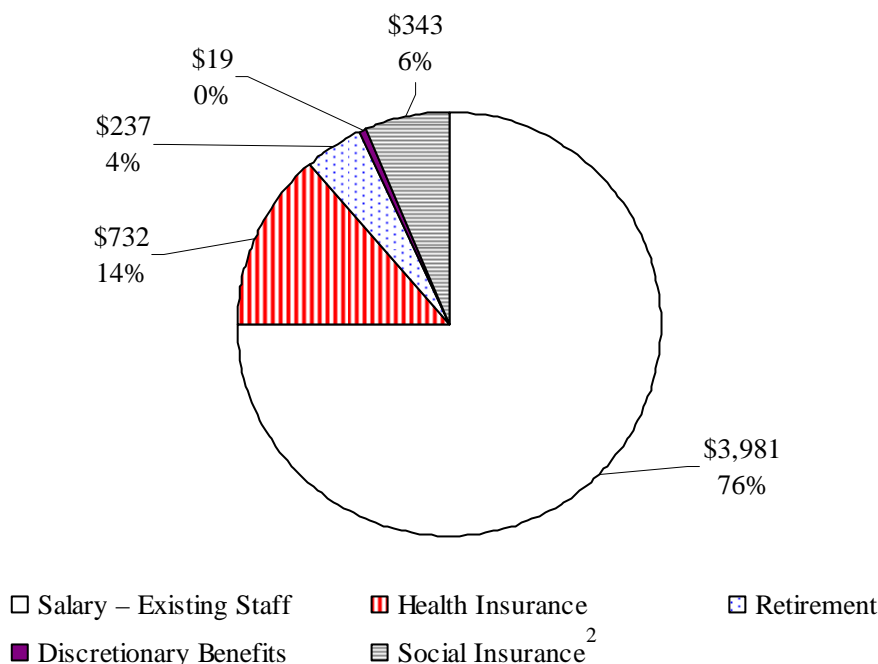
Source: Department of Budget and Management

## Issues

### 1. Statewide Personnel Expenditures Grow 4.6% in Fiscal 2006

The number of regular State positions is growing by 402, or 0.5% in the allowance, while State expenditures devoted to regular employee salaries and fringe benefits are increasing by \$216.7 million, or 4.2% over the fiscal 2005 working appropriation (**Appendix 5** and **Appendix 7**). The non-general fund portion of the general salary increase, not budgeted in the allowance, adds \$21.8 million, for an adjusted increase of 4.6%. The components of compensation in the fiscal 2005 working appropriation are illustrated in **Exhibit 4**, while the components of the change between fiscal 2005 and the allowance are illustrated in **Exhibit 5**. Detail on the budgeted and anticipated adjustments in the fiscal 2006 allowance are shown in **Exhibit 6** and discussed below.

**Exhibit 4**  
**Primary Components of Compensation in the**  
**Fiscal 2005 Working Appropriation<sup>1</sup>**  
 (\$ in Millions)



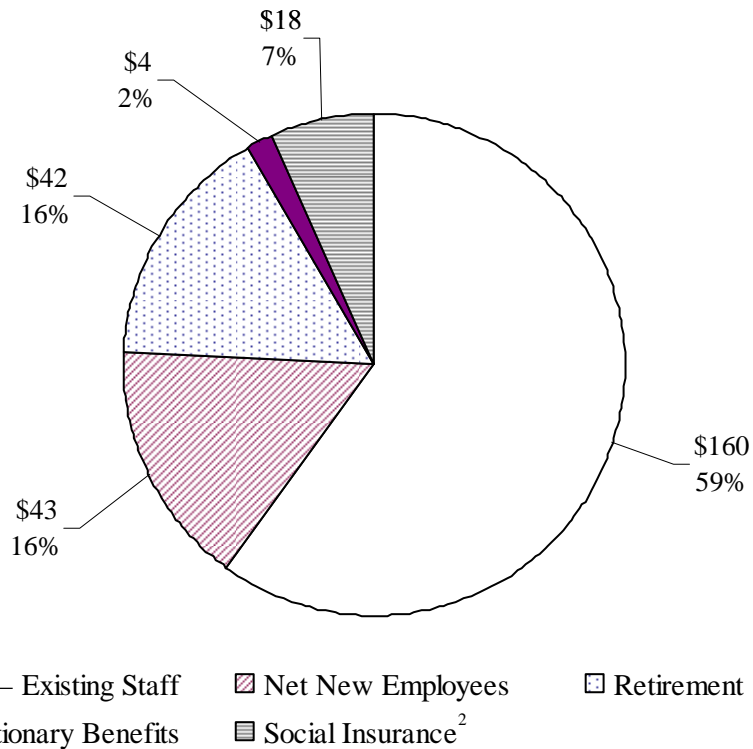
<sup>1</sup>Before turnover.

<sup>2</sup>Social insurance includes Social Security, workers' compensation insurance, and unemployment compensation insurance.

Source: Department of Budget and Management

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**Exhibit 5**  
**Primary Components of Compensation Growth in the Fiscal 2006 Allowance<sup>1</sup>**  
**(\$ in Millions)**



<sup>1</sup> Before turnover.

<sup>2</sup> Social insurance includes Social Security, workers' compensation insurance, and unemployment compensation insurance.

Source: Department of Budget and Management

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**Exhibit 6**  
**Regular Position Personnel Changes**  
**Fiscal 2005 Working Appropriation to Fiscal 2006 Allowance**  
**(\$ in Millions)**

<b>2005 Working Appropriation</b>	<b>\$5,112.7</b>
Deficiency appropriation for January 1 – June 30, 2005, health insurance	15.0
Deficiency appropriation for workers' compensation claims costs	5.0
<b>2005 Revised Working Appropriation</b>	<b>\$5,132.7</b>
Full total fund value of 494.2 FTE positions abolished in the fiscal 2006 allowance (salaries and fringes)	-22.2
757.0 FTE new positions in non-higher education agencies (salaries and fringes)	31.0
139.4 FTE new positions in the higher education institutions (salaries and fringes)	33.7
2.0% general salary increase – general fund (includes \$19.4 million for higher education)	52.5
Increments	90.4
Dedicated salary enhancements	
Annual Salary Reviews for Deputy State Fire Marshal series	0.1
Judicial Compensation Commission recommendations	1.1
Other salary (additional assistance, overtime, shift differential, student payments, and other)	-9.1
Health Insurance	-18.7
Retirement	42.2
Workers' compensation insurance	10.6
Social Security and unemployment compensation insurance	7.3
State deferred compensation match	18.5
Deferred compensation cost containment	-14.3
Adjustment to turnover	-9.2
Other changes	2.9
<b>Fiscal 2006 Allowance</b>	<b>\$5,349.4</b>
Unbudgeted general salary increase – non-general funds	21.8
<b>Adjusted 2006 Allowance</b>	<b>\$5,371.2</b>
Increase over Fiscal 2005 Working Appropriation	238.5
Percent Increase	4.6%

Source: Department of Budget and Management

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**Positions Abolished in the Allowance**

A total of 494.2 FTE positions, 134.4 of which are anticipated filled as of June 30, 2005, are scheduled for abolition in the fiscal 2006 allowance. The locations of these abolitions and the average salary and average years of tenure with the State of the positions anticipated to be filled on

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June 30, 2005, are shown in **Exhibit 7**<sup>3</sup>. The total fund value of these positions, filled and vacant, including salary and fringe benefits, is \$22.2 million.

**Exhibit 7**  
**Executive Branch Abolitions**  
**Percent Filled, Average Salary, and Years of Services of Incumbents in Filled Abolitions**

<u>Department/Service Area</u>	<u>Total Abolitions</u>	<u>Number Expected Filled on 6.30.05</u>	<b>Filled Abolitions</b>	
			<u>Average Salary</u>	<u>Average Years State Service</u>
Executive and Administrative Control	44.4	25.4	48,713	12.6
Financial and Revenue Administration	13.0	0.0		
Budget and Management	33.0	17.0	47,114	16.2
Retirement	2.5	0.0		
General Services	55.0	11.0	35,494	14.1
Transportation	16.0	8.0	51,995	20.8
Natural Resources	40.5	7.5	47,683	26.3
Agriculture	1.5	0.0		
Health and Mental Hygiene	48.6	0.0		
Human Resources	48.2	0.0		
Labor, Licensing, and Regulation	43.0	41.5	46,683	18.5
Public Safety and Correctional Services	42.0	4.0	54,847	16.6
MSDE and Other Education	10.0	10.0	63,806	22.9
Business and Economic Development	1.0	0.0		
Environment	8.0	6.0	48,143	23.9
Juvenile Services	86.0	4.0	58,180	15.5
<b>Subtotal</b>	<b>492.7</b>	<b>134.4</b>	<b>\$48,494</b>	<b>17.7</b>
Higher Education	1.5	0.0		
<b>Total</b>	<b>494.2</b>	<b>134.4</b>	<b>\$48,494</b>	<b>17.7</b>

Source: Department of Budget and Management

<sup>3</sup> Abolitions are currently scheduled for Executive Branch agencies only. The number of positions, by department, in the fiscal 2005 working appropriation, positions abolished and added in the fiscal 2005 allowance, as well as interagency transfers for all departments, are summarized in **Appendix 7**.

## **New Positions**

Statewide, a total of 895.9 new FTE positions are added in the allowance, 139.4 of which are in higher education. Total funds budgeted for non-higher education positions are \$31.0 million, of which approximately \$27.6 million are general funds, for a per position average cost of \$40,946. These new positions are primarily in the Judiciary for new judges and supporting positions (28 FTEs) and for other various classifications (77 FTEs); Office of the Public Defender for the Caseload Initiative (85 FTEs); Department of Juvenile Services (DJS), primarily for the Hickey School (214 FTEs); Department of Public Safety and Correctional Services, primarily for a new housing unit the North Branch Correctional Institution (195); and MDOT, primarily for the new Motor Vehicles Administration branch office in White Oak (62).

In higher education, \$33.7 million has been budgeted for 139.4 FTE positions, for an average cost of \$241,490 per budgeted position. Chapters 239 and 273 (Acts of 2004) have provided the University System of Maryland and Morgan State University with autonomy from the General Assembly to establish staffing levels absent specific legislative constraints, as did Chapter 401 (Acts of 2003) for St. Mary's College. It appears that higher education institutions are budgeting with the intention of adding a substantial number of new positions during fiscal 2006.

## **Allowance Exceeds Position Gap**

The Spending Affordability Committee (SAC) recommended a non-higher education regular position cap of 52,917 FTE positions for fiscal 2006. As submitted, the allowance included 153 positions above that cap, shown in **Exhibit 8**. The fiscal 2006 position cap language, as recommended by DLS, includes an exemption or exception to the cap for non-state funded positions added through the Board of Public Works (BPW) after December 9, 2004. **DLS recommends that the SAC position cap be reduced by 500, bringing the cap to 52,417 positions, and that the funds made available not be used for any purpose except employee and retiree health insurance.**

## **2.0% General Salary Increase**

The allowance contains \$52.5 million in general funds for a planned 2.0% general salary increase effective on July 1, 2005, the second consecutive annual general salary increase (**Appendix 6**)<sup>4</sup>. These funds are budgeted in DBM and are to be transferred to agencies supporting personnel with general funds (\$32.6 million), as well as to higher education institutions (\$19.4 million). The non-general funds necessary to fund the general salary increase (\$21.8 million) will be brought in through budget amendment in individual agencies.

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<sup>4</sup> Appendix 6 also details changes to other components of employee compensation over the last seven years.

**Exhibit 8**  
**How Many Fiscal 2006 Abolitions Are Currently  
 Required Under the Cap?**

	<u>Legislature</u>	<u>Judiciary</u>	<u>Higher Education</u>	<u>Executive Branch*</u>
Fiscal 2005 Working	740	3,224	21,215	52,910
Abolitions	-	-	-2	-493
New Positions	-	105	139	652
<b>Fiscal 2006 Allowance</b>	<b>740</b>	<b>3,328</b>	<b>21,353</b>	<b>53,070</b>
Change	-	105	138	159
<b>Exceeds SAC Cap for Non-higher Education Executive Branch Positions of 52,917</b>				<b>153</b>

\*Non-higher education Executive Branch agencies only.

Source: Department of Budget and Management

**Increment or Merit Increases**

Increment increases, frequently called merit increases, are funded in the fiscal 2006 allowance, for the second consecutive year. The full average cost of these increases is 2.4% of the base salary; employees on the standard salary schedule moving through receive an increase of 3.4 to 3.9% until they reach step 6, then the increases decrease to 1.8 to 2.0%. These increments, tied to the results of performance evaluations, are given in either July or January. About half the workforce receives increments at each point. In fiscal 2006 the cost is approximately \$90.4 million in total funds.

For those employees paid on the standard salary schedule, the average value of the merit increases and the general salary increase together is approximately \$1,800, or 4.36%.

**Annual Salary Reviews (ASRs)**

ASRs are performed each year by the DBM Division of Salary Administration and Position Classification. In four out of the last seven fiscal years (Appendix 6), certain categories of classifications have been given increases in the form of salary upgrades or have been reclassified and had their position descriptions rewritten. With most reclassifications, salary upgrades have also been given, usually one to two grade increases or the equivalent. Classifications focused on are those that have outdated descriptions and classifications for which the State finds it difficult to recruit and retain

employees due to non-competitive salaries. In fiscal 2006, DBM is providing a one-grade salary adjustment for the Deputy State Fire Marshal classification series.

### **Judicial Compensation Commission**

The Judicial Compensation Commission recommended increases in salaries for fiscal 2005 for Court of Appeals judges (15% of the total four-year increase of \$30,000), Court of Special Appeals and the Chief Judge of the District Court (15% of the total four-year increase of \$25,000), circuit court judges (15% of the total four-year increase of \$20,000), and District Court judges (15% of the total four-year increase of \$15,000). These increases did not take effect when the resolution of the commission was amended by the General Assembly. DBM has included \$1.1 million to provide the same increase (15% of the full value) in the salaries of judges, which will go into effect automatically unless the commission's recommendation is amended by the General Assembly within 50 days following introduction of the resolution (i.e., on or before March 9, 2005).

### **Other Salary Adjustments**

Expenditures for additional assistance, overtime earnings, shift differential, student payments, and other miscellaneous salary items (including expenditures for agency-level reclassifications and leave payout upon resignation) decreased by \$9.1 million. While salaries have increased by 3.9% over the fiscal 2005 working appropriation, these other adjustments have decreased by 6.0%.

### **Health Insurance**

DBM has "flat-funded" health insurance in fiscal 2006 by essentially providing no additional funds to account for medical inflation or benefit enhancements over funding provided in the fiscal 2005 working appropriation. However, the appropriation for health insurance in fiscal 2006 decreases by \$18.7 million as the fiscal 2005 deficiency appropriation, submitted by the Administration to provide funds for the estimated cost of health insurance based on the most recent health insurance enrollment period, is treated as a one-time cost. When new health insurance contracts were awarded in calendar 2005, a number of changes were made. The most significant of these were increased copayments for a variety of services. The Administration also intended to implement other non-contractual, "cost-sharing" arrangements that would have resulted in a larger share of the monthly cost of insurance being borne by employees and retirees. However, those cost-sharing changes were not made, with the understanding that any such revisions would be discussed with the budget committees before being implemented.

Decreases in the fiscal 2006 health insurance allowance for individual agencies largely reflect savings from abolitions made as a result of 2005 position cap language. Positions were deleted in fiscal 2005, but funding remains and is being deleted in the fiscal 2006 allowance.

## Retirement

Budgeted State employer contributions to the State Retirement and Pension System increase by \$42.2 million in fiscal 2006 due to actuarial assumption changes approved by the Board of Trustees. While State retirement investments realized investment earnings of \$3.4 billion in fiscal 2004, a 16.2% gain, the employees’ combined retirement and pension system fell out of the funding “corridor” established through Chapter 440, Acts of 2002. The corridor method provides that the contribution rates for the employees’ and teachers’ pension and retirement systems are frozen at fiscal 2002 levels, so long as the systems remain actuarially funded between 90 and 110%, inclusive. Should the actuarial funding levels fall outside this corridor, the statute calls for an adjustment of 20% of the difference between the prior year’s contribution rate and the “true rate” or rate required to fully fund the system over a 25-year amortization schedule.

As demonstrated in **Exhibit 9**, rates established for fiscal 2006 reflect the fact that the employees’ combined system is at 89.2% of full funding in fiscal 2004, down from 91.6% in the previous year. The new contribution level of 5.76% reflects the 2002 level of 4.73% plus 20% of the difference between the 2002 rate and the true fiscal 2006 rate of 9.88%. The teachers’ systems, funded at 92.8%, are still within the corridor. With the exception of the State Police System, the remaining systems reflect the investment performance and unfunded accrued liability of each system.

### Exhibit 9 Fiscal 2005 and 2006 Employer Contribution Rates and Actuarial Funding Levels\*

<u>Plan</u>	<u>Fiscal 2005</u>		<u>Fiscal 2006</u>	
	<u>Rate</u>	<u>Funding Level</u>	<u>Rate</u>	<u>Funding Level</u>
Employees	4.73%	91.6%	5.76%	89.2%
Teachers	9.35%	92.8%	9.35%	92.8%
State Police	0.00%	121.0%	8.22%	107.3%
Judges	36.72%	86.1%	41.12%	80.1%
Law Enforcement Officers' Pension System	37.73%	60.5%	38.47%	63.3%
<b>Combined System</b>	<b>7.97%</b>	<b>92.9%</b>	<b>8.46%</b>	<b>91.7%</b>

\*For fiscal 2005, the June 30, 2003, funding level; for fiscal 2006, the June 30, 2004, funding level.

Source: Milliman U.S.A.

## *F10A02 – DBM – Office of Personnel Services and Benefits*

During the 2004 actuarial valuation by Milliman USA, it was discovered that for an unknown period of years, a segment of participants in the State Police Retirement System<sup>5</sup> were being improperly coded in the actuarial database. The benefits owed to these employees were being computed on a single-life annuity basis, where they should have been coded as joint-and-survivor annuities. As a result, the State Police system has long been operating under an assumption that the system was inordinately over-funded. Based on a 0% contribution rate in effect for fiscal 2005 and the coding error, the State Police “surplus” fell from \$222.8 million to \$87.4 million. The contribution rate increases in fiscal 2006 to 8.22% of payroll.

### **Workers’ Compensation Insurance**

Workers’ compensation assessments increase by \$10.6 million in fiscal 2006, net of a \$5.0 million fiscal 2005 deficiency appropriation in the allowance. The fiscal 2005 unmet need (before the deficiency) and the fiscal 2006 increase are due to medical inflation, more aggressive settlement activity, and the effect of the *Harris vs. Howard County Board of Education* decision, which more broadly defined the types of claims eligible for compensation. In fiscal 2006 the State also assessed agencies \$10.0 million to reduce the future liability.

### **State Deferred Compensation Match**

The State has provided to members of the State Employees’ Modified Pension System (**Appendix 6**) a dollar-for-dollar match for a portion of their contributions made to their Maryland 401(k) supplemental retirement plans for a number of years. However, due to budget constraints, in fiscal 2004 and 2005, funding for that match was withdrawn. In fiscal 2006, the budget as submitted includes funds for a match of up to \$600. Section 18 of the budget bill (House Bill 150/Senate Bill 125) again withdraws executive agency funding for the State’s contribution to the system. The restriction of payment is made possible through the Budget Reconciliation Act of 2005 (Senate Bill 127/House Bill 148).

### **Adjustment to Turnover**

The small increase in turnover (-\$9.2 million) is basically an artifact of increases in other components of compensation and results in no change to the turnover rate itself.

### **Contractual Positions**

The number of FTE contractual employees employed by the State has remained relatively constant in the fiscal 2006 allowance (**Appendix 7**), as has funding devoted to their compensation, reviewed in **Appendix 5**. In non-higher education agencies, 251 FTE fewer contractuales are anticipated and in higher education, 194.2 are added, for a net decrease of 56.5 FTEs. Funding has also decreased slightly by \$1.1 million, or -0.3%.

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<sup>5</sup> The Judges Retirement System and the Law Enforcement Officers’ Plan were also affected, to a lesser degree.

## 2. Chipping Away at Health Insurance Costs

### The Gap

DBM has “flat-funded” health, prescription, mental health, and dental insurance in fiscal 2006 by essentially providing no additional funds for medical inflation or benefit enhancements over the plan in effect through calendar 2004. This administration policy has left the State with a budgetary “gap” of \$128.9 million (**Exhibit 10**) between what is currently funded in the fiscal 2006 allowance for health insurance and what is necessary to maintain the same coverage and cost sharing provided in the first half of fiscal 2005. The challenge to the budget committees, the executive, State employees, and State retirees is finding a way to close this gap. The budget committees and the executive have agreed to convene a workgroup to discuss the specific options.

**Exhibit 10**  
**The Health Insurance Funding "Gap"**  
**Fiscal 2004 – 2006**  
**(\$ in Millions)**

	<u>FY 2004</u> <u>Actual</u>	<u>FY 2005</u> <u>Work Approp.</u>	<u>FY 2006</u> <u>Allowance</u>
General Funds	\$271.4	\$318.6	\$319.6
Special Funds	83.5	99.2	97.6
Federal Funds	68.6	77.0	69.6
Reimbursable Funds	5.8	9.6	8.5
Higher Education Funds	168.6	192.8	201.9
<b>Total Budgeted</b>	<b>\$597.9</b>	<b>\$697.2</b>	<b>\$697.1</b>
<b>Fiscal 2005 Deficiency</b>		\$15.0	
<b>Revised Total</b>		<b>\$712.2</b>	<b>\$697.1</b>
 <b>DBM Projected FY 2006 Health Insurance Costs</b>			<b>\$826.0</b>
 Projected Gap – DBM Estimate of Health Insurance Costs			\$128.9
General Fund Share of Gap*			77.4

\*Includes general fund share of higher education costs.

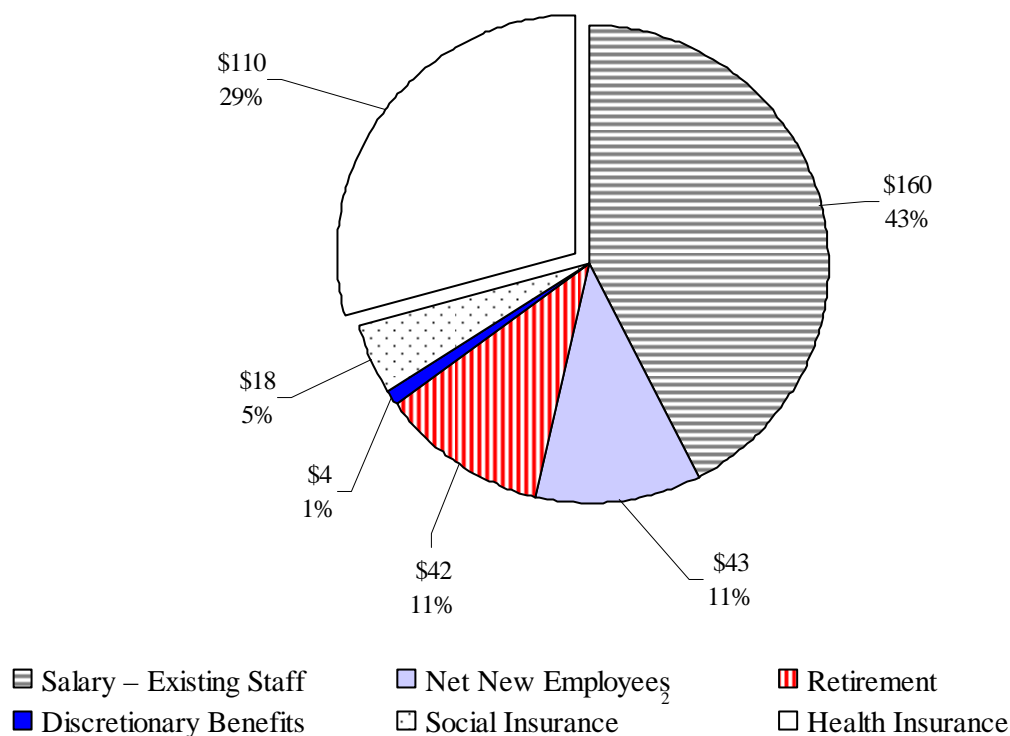
Source: Department of Budget and Management; Department of Legislative Services

## The Players

### The State

Between fiscal 2001 and 2005, funds budgeted for employee and retiree health insurance increased from \$423.9 million to \$712.1 million, or 68.0%. If the same level of coverage is provided in fiscal 2006 as is provided in fiscal 2005, the cost will increase another 16.0% and reach approximately \$826.0 million; this additional cost to the State would comprise 29% of the change in employee compensation between the fiscal 2005 appropriation and the fiscal 2006 allowance, as illustrated in **Exhibit 11**. Between fiscal 2001 and the fiscal 2006 allowance, employee and retiree health insurance increased as a percentage of total regular personnel compensation from 9.7 to 13.0%. If the State’s cost reaches \$826.0 million, health insurance will represent 15.1% of regular employee compensation. **Exhibit 12** demonstrates trends in total claims paid by the State on behalf of employees and retirees.

**Exhibit 11**  
**Components of Change<sup>1</sup> in Employee Compensation in the Allowance**  
**with Full Funding of the Gap by the State**  
 (\$ in Millions)



<sup>1</sup> Before turnover.

<sup>2</sup> Social insurance includes Social Security, workers’ compensation insurance, and unemployment insurance.

Source: Department of Budget and Management; Department of Legislative Services

**Exhibit 12**  
**Retiree Health Insurance Claims Expenditures**  
**As a Percentage of Total Expenditures**  
**Calendar 1999 – 2004**  
**(\$ in Millions)**

	<u>CY 1999</u>	<u>CY 2000</u>	<u>CY 2001</u>	<u>CY 2002</u>	<u>CY 2003</u>	<u>CY 2004<sup>2</sup></u>	<b>Avg. Annual Growth Rate CY 99-04</b>
<b>Active Employee Expenditures</b>							
Health <sup>1</sup>	\$251.6	\$260.2	\$292.8	\$334.3	\$358.1	\$389.9	9.2%
Prescription	67.7	83.7	100.5	118.8	134.1	155.4	18.1%
Dental	7.0	15.7	17.3	18.8	19.5	19.2	22.2%
<b>Total</b>	<b>\$326.3</b>	<b>\$359.5</b>	<b>\$410.7</b>	<b>\$471.9</b>	<b>\$511.7</b>	<b>\$564.5</b>	<b>11.6%</b>
<b>Retiree Expenditures</b>							
Health <sup>1</sup>	\$77.3	\$80.5	\$93.3	\$106.8	\$118.3	\$135.9	12.0%
Prescription	55.1	67.4	81.3	96.2	112.0	134.7	19.6%
Dental	1.7	2.7	3.1	3.4	3.9	4.3	20.5%
<b>Total</b>	<b>\$134.1</b>	<b>\$150.5</b>	<b>\$177.6</b>	<b>\$206.4</b>	<b>\$234.2</b>	<b>\$274.9</b>	<b>15.4%</b>
<b>Total Expenditures</b>							
Health <sup>1</sup>	\$328.8	\$340.6	\$386.1	\$441.0	\$476.4	\$525.9	9.8%
Prescription	122.8	151.0	181.8	215.0	246.0	290.1	18.7%
Dental	8.7	18.4	20.4	22.2	23.4	23.5	21.9%
<b>Total</b>	<b>\$460.4</b>	<b>\$510.0</b>	<b>\$588.3</b>	<b>\$678.2</b>	<b>\$745.8</b>	<b>\$839.4</b>	<b>12.8%</b>
<b>Retiree Expenditures, As a Percent of Total Expenditures</b>							
Health <sup>1</sup>	23.5%	23.6%	24.2%	24.2%	24.8%	25.8%	
Prescription	44.9%	44.6%	44.7%	44.7%	45.5%	46.4%	
Dental	19.4%	14.6%	15.0%	15.5%	16.7%	18.3%	
<b>Total</b>	<b>29.1%</b>	<b>29.5%</b>	<b>30.2%</b>	<b>30.4%</b>	<b>31.4%</b>	<b>32.7%</b>	

<sup>1</sup>Includes mental health and vision coverage.

<sup>2</sup>Projected expenditures.

Source: Department of Budget and Management

## **The State's Cost for Retiree Health Insurance**

The current practice in the Maryland State workforce is to finance the cost of retiree health benefits through a “pay-as-you-go” system. That is, the funding necessary to cover the cost of the State subsidy for retirees’ health, prescription, and dental insurance is budgeted in much the same way that active employee expenditures are budgeted. Each year, the State and its agencies estimate and budget the funds necessary to fully cover the cost of the State’s share of health insurance for both populations.

As demonstrated in Exhibit 12, payments made to providers for claims made on behalf of retirees have grown from 29.1% of total expenditures in calendar 1999 to 32.7% in calendar 2004 and are growing at a faster pace than active employees’ claims payments. Total payments made on behalf of active employees have grown approximately 11.6% annually since calendar 1999, while total payments made on behalf of retirees have grown approximately 15.4%.

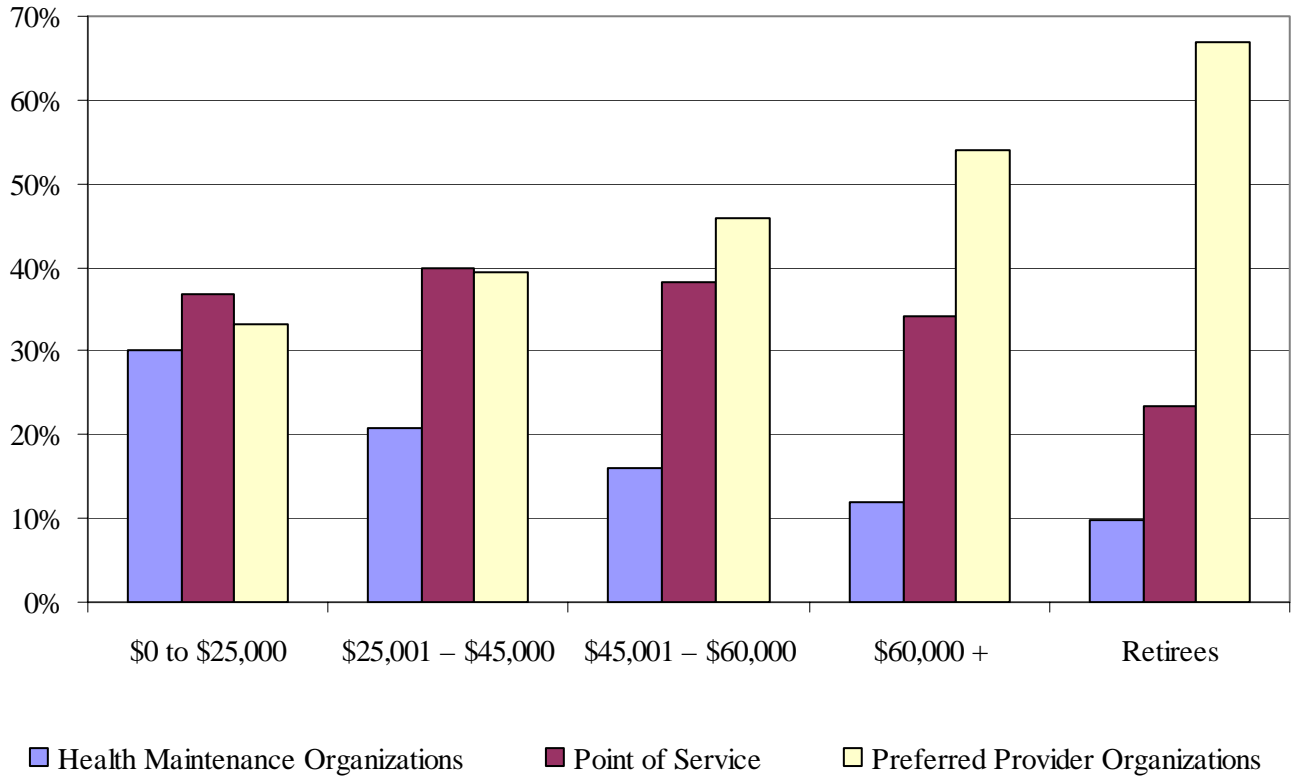
The faster pace of growth for retiree payments is driven primarily by the growth in prescription insurance spending but is also driven simply by the larger number of retiree participants (**Appendix 8**). Spending in calendar 2004 on retiree prescription insurance (\$134.7 million) is almost as high as spending on retiree health insurance (\$135.9 million). The State paid more in calendar 2004 for prescription insurance on behalf of retirees than it paid for all retiree insurances in calendar 1999.

## **The Employees**

The number of active employees enrolled in the State’s health insurance benefit decreased slightly between calendar 2001 and 2005 (**Appendix 8**), from 70,024 to 69,882, as did the number of employees choosing prescription insurance (from 67,346 to 66,254). This decline in enrollment tracks the decline in the number of State employees. More interesting, perhaps, is the increase between calendar 2004 and 2005 of 673 employee participants in health insurance plans and 529 participants in the prescription insurance plan, even though the number of employees was relatively constant over that period. It appears that State employees and their spouses are utilizing the State plan more than they did in the past.

Most employees are choosing preferred provider organization (PPO) and point-of-service (POS) plans, rather than health maintenance organization (HMO) options, and this pattern has been consistent for a number of years (**Appendix 8**). The employees’ share of the premium of these two more expensive options is currently 20% of the total cost of PPOs and 15% of the total cost for POS plans. Employees in HMOs pay 15% of the total cost of premiums. Annual obligations can range from \$433 for the cheapest HMO single plan to \$2,171 for the most expensive PPO family plan (**Appendix 9**). Even though employees who earn less than \$25,000 are slightly more likely to enroll in HMOs than employees in higher salary ranges, they are still more likely to enroll in POS plans and PPOs. (See **Exhibit 13** and **Appendix 10**.) The “break point” appears to be about \$45,000. At that income, employees become more likely to choose PPOs, the most expensive option.

**Exhibit 13**  
**Health Insurance Choice by State Salary**



Note: These data exclude the General Assembly, the Judiciary, the Maryland Transportation Authority, and union employees of the Maryland Transit Administration.

Source: Department of Budget and Management

**The Retired State Employees**

The State of Maryland offers its 32,128 retired employees the same range of paid health insurance options as are offered to active State employees (Appendix 8), and for those retirees not eligible for Medicare, benefits cost the same. Premium rates for medical coverage vary according to whether the retiree or their dependents are eligible for Medicare.

State retirees and spouses must enroll in Medicare Parts A and B as soon as they are eligible, either through age or disability. The State retiree benefit plan is a supplemental plan to Medicare when the retiree or their spouse turns 65 or through certification of disability. The State plan covers

only that portion of the hospital and medical bills not covered by Medicare. As a result, State benefits are cheaper. If the retiree or spouse does not enroll in Medicare, they will become responsible for the claims costs that Medicare would have paid. Persons who are certified by the Social Security Administration and become eligible for Medicare 24 months after a disability must also enroll in Medicare Parts A and B as soon as they are eligible.

Approximately two-thirds of retired employees choose PPO plans, a choice likely attributable to the flexibility in physician choice those plans offer. About 23% choose POS plans, and 10% choose HMOs.

### **Closing the Gap**

Closing the \$128.9 million gap requires a contribution from State employees, State retirees, and the State itself. The challenge to the budget committees, the executive, State employees, and State retirees is finding a way to close the gap without putting an undo burden on any of the players. The options include the following:

- requiring employees and retirees to pay a larger share of the cost of the benefit;
- making the available health, prescription, mental health, and dental insurance programs more efficient;
- bringing in funds from elsewhere in the budget; or
- simply making benefits less generous, and less costly.

The first two options provide more long-term savings, but savings are not always immediate. Bringing in funds from elsewhere in the budget provides immediate relief, but for the most part will not provide ongoing savings.

### **Requiring Employees and Retirees to Pay a Larger Share of the Cost**

Any cost-shifting of health insurance costs from the State to employees and retirees will be in addition to the \$10.4 million estimated by DBM to be the added cost resulting from higher emergency room and office visit copayments. These new copayments were established in the health insurance provider contracts effective beginning in calendar 2005.

If the full cost of the \$128.9 million fiscal 2006 gap were borne entirely by employees and retirees through cost-shifting options, the average additional cost per employee and retiree would be \$1,264 per year<sup>6</sup>. In contrast, the average increase funded in the allowance from the 2.0% general salary increase and an increment increase is \$1,800<sup>7</sup>.

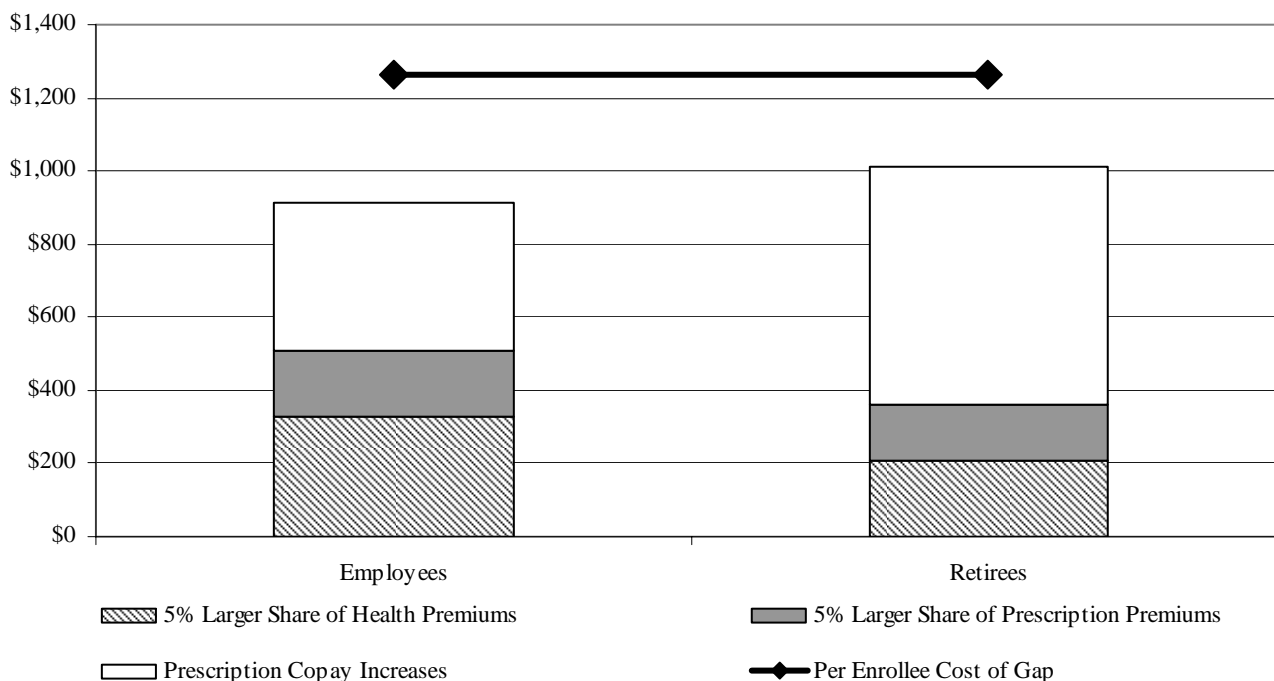
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<sup>6</sup> This assumes that employee and retiree participants use both health and prescription insurance. For those who only use one type, the share will be less.

<sup>7</sup> This is the average increase for employees paid on the standard salary schedule.

The mechanisms for affecting this change range from increasing the employee/retiree share of the premium to requiring larger prescription drug copayments. If, for example, employees and retirees were asked to pay a 5% larger share of the monthly premium costs (PPO and Prescription: 20 to 25%; POS and HMO: 15 to 20%), the State could save \$46.4 million. For active employees, this would mean an average annual added cost of \$329 for health insurance and \$178 for prescription insurance; for retirees the increase would be an average annual added cost of \$206 for health insurance and \$157 for prescription insurance (**Exhibit 14**). Revising the copayment structure by increasing copayments from \$3/\$5/\$10 to \$5/\$10/\$15, switching to the industry standard for copayment tiers<sup>8</sup>, and requiring 2 copayments for 90 days worth of drugs saves the State \$47.5 million but increases active employees’ average annual cost by \$405 and retirees’ average annual cost by \$649. There are numerous mechanisms for funding the gap through cost-shifting; whichever method or methods are chosen, the average cost per employee and retiree must reach \$1,264 to completely close the gap.

**Exhibit 14**  
**Employee and Retiree Cost of the Gap**  
**Calendar 2005**



Source: Department of Budget and Management; Department of Legislative Services

<sup>8</sup> This would mean switching from the current tier system of preferred performance drugs (cheapest tier), formulary, and non-formulary (most expensive tier) to the industry standard tiers of generic (cheapest), preferred brand, and non-preferred brand (most expensive).

## **Making the Plans More Efficient**

There are options that shift the burden of health insurance savings away from the employee and retiree, but many may not provide immediate savings to the State. Some of these options are discussed below.

### **Larger Pharmacy Network, Prior Authorization, and Managed Quantities of Drugs**

Methods available for providing more efficient and less costly delivery of services include reducing payments to pharmacies for dispensing the drug and for the ingredient cost of certain drugs. Other methods involve prior authorization for certain drugs, managed quantities of some drugs, and optional mail order for certain drugs. These mechanisms require that the prescription benefits manager monitor prescriptions to ensure that they are medically necessary and that excessive or inappropriate drug use is not occurring. DBM indicates that budgetary savings from these options could approach \$16.6 million. **DLS recommends adoption of this approach as a prudent way to manage limited resources.**

### **Disease Management**

Disease management options are population-based approaches to medical care that identify people at risk for certain diseases and intervene to improve their health and then, hopefully, measure outcomes. Registered nurses or other medical professionals work with a patient's doctor to give support that could range from written materials for low-risk patients to home visits for high-risk patients. The most common conditions covered include diabetes, asthma, and congestive heart failure. Difficulties that would have to be overcome by the State include potential problems with sharing information between the State's stand alone or "carved out" prescription drug plan with health insurance providers, since drug usage is an indicator of some targeted diseases. Budgetary savings result from more efficient and effective use of available treatments.

### **Academic Detailing**

Academic detailing programs are similar to disease management programs in that they try to provide targeted information to a select group of participants in the delivery of health services. These programs provide a method by which registered pharmacists visit physicians in their offices to provide clear, concise, evidence-based information regarding the use of pharmaceuticals to aid prescribing decisions for various diseases. They provide a non-biased alternative to information provided by pharmaceutical sales representatives. Information from West Virginia indicates that these educator-pharmacists provide an alternative to pharmaceutical sales representatives and typically spend about 10 minutes with each physician per visit. They convey key points about disease/pharmaceutical treatment options and are then available to answer any questions. Physicians are targeted according to the volume and appropriateness of their prescribing history. Budgetary savings again result from more efficient and effective use of available pharmaceuticals.

## **Purchasing Consortium**

The current pharmacy benefit manager contract between the State and CaremarkPCS Health is in the second of three possible one-year renewal options and will be rebid at the end of the current calendar year, according to DBM. This is an opportunity to incorporate the suggested and other program efficiencies into delivery of the State's benefit. It is also an opportunity to explore other opportunities such as a multi-State prescription buying consortium for its employees to take advantage of the purchasing power of a much larger pool of pharmaceutical consumers.

## **Finding the Funds Elsewhere**

### **Medicare Drug Plan**

The Medicare Modernization Act of 2003 establishes a prescription drug benefit for Medicare enrollees, beginning January 1, 2006. Private prescription drug plans that contract with the Medicare program will provide the drug benefit. Enrollee cost sharing requirements including premiums, deductibles, and coinsurance are waived for low-income Medicare beneficiaries (**Exhibit 15**). As noted in Exhibit 10, the Medicare drug benefit includes a significant coverage gap for individuals with incomes in excess of 150% of the federal poverty level. The coverage gap or "donut hole" provides no subsidy for annual drug costs between \$2,250 and \$5,100 per year.

Under the federal legislation, qualified state retiree plans with drug coverage that is actuarially equivalent to the Medicare Part D benefit will receive a 28% subsidy for spending above \$250 and up to \$5,000 per Medicare eligible enrollee per year of which DLS estimates that there are approximately 30,500 (retirees and dependents). Enrollees receiving Medicare drug subsidies through their retiree plan may not enroll directly in Medicare Part D. Estimated calendar 2006 savings to the State from the 28% subsidy is \$17 million.

Dropping comprehensive prescription drug coverage for retirees with Medicare and instead assisting the retirees with the cost sharing requirements of the Medicare drug benefit could generate greater savings for the State than \$17 million annual payment from Medicare. Providing a subsidy to help retirees fund prescription purchases within the donut hole is also a possibility. This would make the Medicare benefit closer in value to the current retiree benefit, but it is unclear at this point whether the federal government will allow states to subsidize this portion of retiree costs.

**DLS requests that DBM comment on its plans for closing the \$128.9 million health, prescription, mental health, and dental insurance coverage funding gap.**

**Exhibit 15**  
**Enrollee Cost Sharing Required under**  
**Medicare Prescription Drug Benefit**

<u>Household Income</u>	<u>Monthly Premium</u>	<u>Annual Deductible</u>	<u>Coinsurance and Copayment (Generic/Brand)</u>
At or below 100% of Poverty	None	None	\$1/\$3
101% – 135% of Poverty	None	None	\$2/\$5
135% – 150% of Poverty	Sliding scale	\$50	15% coinsurance up to \$5,100 catastrophic limit; greater of 5% coinsurance or copayments of \$2/\$5 after reaching catastrophic limit.
Above 150% of Poverty	\$35	\$250	25% of drug costs between \$250 and \$2,250 (\$500).  100% of drug costs between \$2,250 and \$5,100 (\$2,850).  Greater of 5% of drug costs or \$2/\$5 copayment for drug costs above \$5,100.

Source: Department of Legislative Services

**3. How Many “At-will” Employees Are Employed by the State?**

The State Personnel Management System Reform Act of 1996 (“personnel reform”) established, among other things, new classifications of employees. Before personnel reform (Chapter 347, Acts of 1996) was enacted, there were two categories of employees, classified and unclassified. Employees in the unclassified category included:

- the chief administrator in an Executive Branch unit of government;
- any position requiring medical, engineering, scientific, educational, or expert training and qualifications;
- a member of the Executive Pay Plan;

- a position directly appointed by the Governor not provided for in the Maryland Constitution; or
- a position which was directly appointed by the Board of Public Works (BPW).

Classified employees were those remaining, then called the skilled service.

### **Personnel Reform**

The Task Force to Reform the State Personnel Management System, in its *Report to the Governor*<sup>9</sup>, recommended the establishment of four new classes of State employees in use today (State Personnel and Pensions Article, Title 6, Subtitle 4), which consists of the following:

- skilled service;
- professional service;
- management service; and
- executive service.

Non-probationary skilled and professional service employees who are not special appointments have the right of appeal (State Personnel and Pensions Article, Section 11-109) for disciplinary action ranging from a written reprimand to termination with prejudice. Management and executive service employees are noncompetitive employees and may be terminated for any reason not legally prohibited, with no right of appeal, called “at will” employees. Special appointments in any service do not have the right of appeal and are also considered “at will.”

A special appointment is defined (State Personnel and Pensions Article, Section 6-405) as an individual in the any of the following positions in the skilled service, professional service, management service, or executive service:

- a position to which an individual is directly appointed by the Governor by an appointment that is not provided for by the Maryland Constitution;
- a position to which an individual is directly appointed by BPW;
- a position which performs a significant policy role or provides direct support to a member of the executive service, as determined by the Secretary of Budget and Management;
- a position assigned to Government House or to the Governor’s Office; and

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<sup>9</sup> Published in January 1996.

- any other position specified by law to be a special appointment.

This legislation was adopted during the 1996 session. At the time, special appointments were non-existent; in the fiscal 2006 allowance, they comprise a significant portion of the workforce, as demonstrated in **Exhibit 16**. It is important to remember, however, that even though more than 7% of the total workforce is a special appointment, and an additional 5% are also “at-will,” these positions are not distributed evenly between departments, as demonstrated in **Exhibit 17** below. The distribution of at-will employees by job family shows that most are in the “officials and administrators” and “professional” job families (**Appendix 15**).

**Exhibit 16**  
**Special Appointments and At-will Positions in Fiscal 1996 and 2005**  
**Non-higher Education Executive Branch Agencies**

	<b>Fiscal 1996</b>		<b>Fiscal 2005</b>	
	<b><u>FTEs</u></b>	<b><u>%</u></b>	<b><u>FTEs</u></b>	<b><u>%</u></b>
Management Service	1,400	2.7%	1,732	3.3%
Executive Service <sup>1</sup>	339	0.6%	191	0.4%
Other MDOT At-will	594	1.1%	667	1.3%
Special Appointments			3,825	7.2%
<b>Subtotal At-will</b>	<b>2,333</b>	<b>4.4%</b>	<b>6,415</b>	<b>12.1%</b>
Other	50,399	95.6%	46,495	87.9%
<b>Total<sup>2</sup></b>	<b>52,732</b>	<b>100.0%</b>	<b>52,910</b>	<b>100.0%</b>

<sup>1</sup> Only includes the MDOT Executive Service paid on the Executive Salary Schedule; others MDOT Executive Service employees are in the "other MDOT at-will" category.

<sup>2</sup> The data from fiscal 1996 only include Executive Branch agencies; the same level of information is provided for fiscal 2005. Information for the total non-higher education workforce is provided in Exhibit 17.

Source: Department of Budget and Management; Department of Legislative Services; *Task Force to Reform the State Personnel Management System*, Report to the Governor, January 1996

**Exhibit 17**  
**Fiscal 2005 Working Positions in “At-will” Status<sup>1</sup>:**  
**Special Appointments, Executive Service, and Management Service**

<u>Department/Service Area</u>	<u>Total Workforce</u>	<u>At-Will</u>		<u>Special Appointments Only</u>	
		<u>FTE Positions</u>	<u>Percent of Workforce</u>	<u>FTE Positions</u>	<u>Percent of Workforce</u>
Legislature	740	552	74.6%	552	74.6%
Judiciary and Other Legal	4,735	826	17.4%	744	15.7%
Executive and Administrative Control	1,566	774	49.4%	539	34.4%
Financial and Revenue Administration	2,035	209	10.2%	50	2.4%
Budget and Management	468	201	42.9%	134	28.6%
Retirement	180	70	38.9%	40	22.2%
General Services	712	92	12.9%	41	5.8%
Transportation	9,044	675	7.5%	-	0.0%
Natural Resources	1,417	183	12.9%	58	4.1%
Agriculture	430	39	9.0%	17	3.8%
Health and Mental Hygiene	7,548	540	7.2%	253	3.3%
Human Resources	7,297	330	4.5%	121	1.7%
Labor, Licensing, and Regulation	1,490	147	9.9%	57	3.8%
Public Safety and Correctional Services	11,195	543	4.8%	350	3.1%
MSDE and Other Education	1,938	1,027	53.0%	926	47.8%
Housing and Community Development	386	183	47.4%	100	25.9%
Business and Economic Development	299	257	86.0%	239	79.9%
Environment	954	126	13.2%	46	4.8%
Juvenile Services	1,963	130	6.6%	65	3.3%
Police and Fire Marshal	2,479	71	2.9%	52	2.1%
<b>Total Non-higher Education</b>	<b>56,874</b>	<b>6,972</b>	<b>12.3%</b>	<b>4,382</b>	<b>7.7%</b>

<sup>1</sup>Excludes positions that are to be abolished in the fiscal 2006 allowance.

Source: Department of Legislative Services; Department of Budget and Management

## Recommended Actions

1. Amend the following section:

SECTION 18. AND BE IT FURTHER ENACTED, That contingent upon the enactment of legislation to eliminate the payment of employer contributions for State supplemental plans in the Optional Defined Contribution System in fiscal year 2006, the funding for these payments (Comptroller Object 0172) for Executive Branch employees shall be reduced by \$7,601,505 in general funds, \$3,713,898 in special funds, and \$3,029,667 in federal funds in accordance with a schedule determined by the Governor, notwithstanding the provisions of § 32-205 of the State Personnel and Pensions Article, in fiscal 2006 the State shall be required to make the employer contributions to the applicable State supplemental plan for participating employees in the Optional Defined Contribution System up to and including \$400 per participating employee. Funding for this purpose (subobject 0172) shall be reduced in fiscal 2006 by the following amounts:

<u>Department</u>	<u>Fund</u>	<u>Amount</u>
<u>Executive</u>	<u>General</u>	<u>\$2,533,835</u>
<u>Executive</u>	<u>Special</u>	<u>1,237,966</u>
<u>Executive</u>	<u>Federal</u>	<u>1,009,889</u>
<u>Judiciary</u>	<u>General</u>	<u>358,669</u>
<u>Judiciary</u>	<u>Federal</u>	<u>5,596</u>

Authorization for executive agencies to expend \$121,148 in reimbursable funds for subobject 0172 is hereby withdrawn. Allocation of the reduction to reimbursable funds shall be made by the Governor prior to July 1, 2005.

**Explanation:** This language provides for an amended reduction in the funding for the State’s match of the deferred compensation benefit in the budget bill and provides for a State match of up to and including \$400 per participating employee. The General Assembly is also recommending that Section 12, House Bill 148/Senate Bill 127, which provides the legal authority to not make a State match, be stricken.

2. Add the following section:

SECTION X. AND BE IT FURTHER ENACTED, That the Board of Public Works, in exercising its authority to create additional positions pursuant to Section 7-236 of the State Finance and Procurement Article, may authorize during the fiscal year no more than 50 positions in excess of the total number of authorized State positions on July 1, 2005, as

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determined by the Secretary of Budget and Management. Provided, however, that if the imposition of this ceiling causes undue hardship in any department, agency, board, or commission, additional positions may be created for that affected unit to the extent that positions authorized by the General Assembly for the fiscal year are abolished in that unit or in other units of State government. It is further provided that the limit of 50 does not apply to any position that may be created in conformance with specific manpower statutes that may be enacted by the State or federal government nor to any positions created to implement block grant actions or to implement a program reflecting fundamental changes in federal/State relationships. Notwithstanding anything contained in this section, the Board of Public Works may authorize additional positions to meet public emergencies resulting from an act of God and violent acts of men, which are necessary to protect the health and safety of the people of Maryland.

The Board of Public Works may authorize the creation of additional positions within the Executive Branch provided that 1.25 full-time equivalent contract positions are abolished for each regular position authorized and that there be no increase in agency funds in the current budget and the next two subsequent budgets as the result of this action. It is the intent of the General Assembly that priority is given to converting individuals that have been in a contract position for at least two years. Any position created by this method shall not be counted within the limitation of 50 under this section.

In addition to any positions created within the limitation of 50 under this section, the Board of Public Works may authorize the creation of no more than 150 positions within the Department of Human Resources to provide services purchased by Local Management Boards through contracts with local departments of social services. If a Local Management Board terminates a contract with a local department of social services during the fiscal year, all the positions created by the Board of Public Works to provide services under the terms of that contract shall be abolished.

In addition to any positions created within the limitation of 50 under this section, the Board of Public Works may authorize the creation of positions within the Department of Human Resources to provide services funded by grants from sources other than Local Management Boards. If any grant entity terminates a grant award with a local department of social services or other unit during the fiscal year, all positions created by the Board of Public Works to provide services under the terms of the grant award shall be abolished. The employee contracts for these positions shall explicitly state that the positions are abolished at the termination of the grant award. General funds or any other State funds shall not be used to pay any of the salaries or benefits for these positions. Furthermore, the Department of Human Resources must provide a summary to the budget committees by December 1 of each year on the number of positions created under this section.

The numerical limitation on the creation of positions by the Board of Public Works established in this section shall not apply to positions entirely supported by funds from federal or other non-State sources so long as both the appointing authority for the position

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and the Secretary of Budget and Management certify for each position created under this exception that:

- (1) funds are available from non-State sources for each position established under this exception; and
- (2) any positions created will be abolished in the event that non-State funds are no longer available.

The Secretary of Budget and Management shall certify and report to the General Assembly by June 30, 2006, the status of positions created with non-state funding sources during fiscal 2004, 2005, and 2006 under this provision as remaining authorized or abolished due to discontinuation of funds.

**Explanation:** This annual language, the “Rule of 50”, limits the number of positions that may be added after the beginning of the fiscal year to 50 and provides for exceptions to the limit.

<b>Information Request</b>	<b>Author</b>	<b>Due Date</b>
Certification of the status of positions created with non-state funding sources during fiscal 2004, 2005, and 2006	DBM	June 30, 2006

3. Add the following section:

SECTION X. AND BE IT FURTHER ENACTED, That immediately following the close of fiscal 2005, the Secretary of Budget and Management shall determine the total number of full-time equivalent positions that are authorized as of the last day of fiscal 2005 and on the first day of fiscal 2006. Authorized positions shall include all positions authorized by the General Assembly in the personnel detail of the budgets for fiscal 2005 and 2006 including non-budgetary programs, the Maryland Transportation Authority, the University System of Maryland self-supported activities, and the State Use Industries.

The Department of Budget and Management (DBM) shall also prepare during fiscal 2006 a report for the budget committees upon creation of regular full-time equivalent (FTE) positions through Board of Public Works (BPW) action and upon transfer or abolition of positions. This report shall also be provided as an appendix in the fiscal 2007 Governor's budget book. It shall note, at the program level:

- (1) where regular FTE positions have been abolished;
- (2) where regular FTE positions have been created;

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(3) from where and to where regular FTE positions have been transferred; and

(4) where any other adjustments have been made.

Provision of contractual FTE position information in the same fashion as reported in the appendices of the fiscal 2005 Governor's budget book shall also be provided.

**Explanation:** This is annual language providing reporting requirements for regular and contractual State positions.

<b>Information Request</b>	<b>Author</b>	<b>Due Date</b>
Total number of FTEs on June 30 and July 1	DBM	July 14, 2005
Report on the creation, transfer, or abolition of regular positions	DBM	As needed

4. Add the following section:

SECTION X. AND BE IT FURTHER ENACTED, That the Department of Budget and Management (DBM) shall maintain three statewide subobjects for fiscal 2007. Subobject 0111 is for leave payout funds used when long-term employees leave State service and are entitled to payment for accrued leave, subobject 0112 is for funds to be used for reclassifications and hiring above the minimum for a classification, and subobject 0306 is for cell phone expenditures. DBM shall further require that agency programs and subprograms specify in agency budget requests the use to which subobjects 0110 (Miscellaneous Adjustments) and 0199 (Other Fringe Benefit Costs) are being put.

**Explanation:** Agencies have treated two potentially notable personnel expenditures inconsistently. Some agencies in the past have budgeted vacation leave payout and expenditures related to hiring above the minimum rate in subobject 0110. Both of these are expenditures that other agencies have taken into consideration when calculating their turnover expectancy because they budgeted them within regular earnings (subobject 0101). By treating these expenditures differently in different agencies, it is difficult to consistently calculate and adequately compare turnover expectancy between agencies or to an agency's vacancy experience.

The addition of the cell phone expenditure subobject was necessary because it was found that without it, agencies were budgeting cell phone expenditures in as many as 30 different subobjects, making them extremely difficult to track.

Agencies also have the option of using subobjects 0110 and 0199 for various purposes, making it possible that expenditures more appropriately budgeted elsewhere will be reflected in these undefined categories.

5. Add the following section:

SECTION X. AND BE IT FURTHER ENACTED, That:

- (1) For fiscal 2006 the total number of full-time equivalent (FTE) regular positions may not exceed 52,417 in Executive Branch agencies and the number of FTE contractual positions, as reported in the State Budget Books, may not exceed 2,779 in Executive Branch agencies. For the purposes of this section, Executive Branch agencies shall exclude the University System of Maryland, St. Mary's College of Maryland, Morgan State University, and Baltimore City Community College.
- (2) The Governor shall submit to the Board of Public Works not later than June 15, 2005, a schedule for aligning the authorizations in Section 1 of this Act to the levels established in paragraph (1) of this section, and shall take such actions as necessary to implement any necessary reductions. This schedule may only alter position authorizations for agencies of the Executive Branch, excluding the University System of Maryland, St. Mary's College of Maryland, Morgan State University, and Baltimore City Community College.
- (3) In implementing this section, the Governor shall abolish the number of positions in Executive Branch agencies, excluding the University System of Maryland, St. Mary's College of Maryland, Morgan State University, and Baltimore City Community College, necessary to reach the limit.
- (4) The number of exempt or non-State funded positions added in fiscal 2005 after December 9, 2004, through the Board of Public Works in non-higher education agencies, under the authority of Section 18 of the 2004 budget bill (Chapter 429, Acts of 2004) shall not count under the limit established in paragraph (1).
- (5) Funding for salaries and wages in Comptroller objects other than 0152 (Health Insurance) and 0154 (Retiree Health Insurance) for non-higher education agencies of the Executive Branch shall be reduced by not less than \$30,000,000 in accordance with a schedule determined by the Governor. This reduction may be allocated to any object or subobject of expenditure, with the exception of Comptroller objects 0152 and 0154, and may be transferred to Comptroller objects 0152 and 0154. Funds not transferred to Comptroller objects 0152 and 0154 may not be expended on any other program or purpose.
- (6) The Secretary of Budget and Management shall provide to the budget committees a list of abolished positions by eight-digit budget code on or before July 1, 2005.

**Explanation:** This language imposes a cap of 52,417 regular positions for Executive Branch agencies, excluding the University System of Maryland, St. Mary's College of Maryland, Morgan State University, and Baltimore City Community College. This limit reduces the

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Spending Affordability Committee recommended cap by 500 FTE positions; FTE Executive Branch positions included in the fiscal 2006 allowance exceed the revised position cap by 652.5 FTE positions.

This language requires that a total of \$30.0 million be reduced from non-health insurance subobjects, and it is the intent of the General Assembly that these funds be transferred to health insurance subobjects 0152 and 0154. Funding for this transfer is available due to reductions in the number of positions in the allowance through this section and the availability of funds from the approximately 1,114 vacant positions funded in non-higher education Executive Branch agencies in the allowance.

<b>Information Request</b>	<b>Author</b>	<b>Due Date</b>
List of abolished positions	DBM	July 1, 2005

6. Add the following section:

SECTION X. AND BE IT FURTHER ENACTED, That the Department of Budget and Management (DBM) shall report the total fiscal year direct cost of implementing provisions of collective bargaining agreements in non-higher education agencies in fiscal 2007, including the cost of additional employee compensation and fringe benefits developed in consultation with unit representatives. The report shall include the fiscal 2006 total costs for each of the negotiated collective bargaining expenditure categories, by agency, program, fund, and bargaining unit. Administrative costs related to collective bargaining shall be included in the report. It shall also include commensurate costs for employees not covered by collective bargaining. The report is due on January 28, 2006.

The University System of Maryland, St. Mary's College of Maryland, Morgan State University, and Baltimore City Community College shall also each provide a report of the total fiscal 2007 cost of implementing provisions of collective bargaining, including administrative costs. The report shall be identical in structure to the report provided by DBM. These reports are due on January 28, 2006.

**Explanation:** The cost of implementing collective bargaining is not information that is available through the budget system. This annual language ensures that this information is available.

<b>Information Request</b>	<b>Authors</b>	<b>Due Date</b>
Report on the cost of implementing provisions of collective bargaining agreements	DBM University System of Maryland St. Mary's College of Maryland Morgan State University Baltimore City Community College	January 28, 2006

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7. Add the following section:

SECTION X. AND BE IT FURTHER ENACTED, That the Department of Budget and Management (DBM) and the Maryland Department of Transportation (MDOT) are required to submit to the Department of Legislative Services' (DLS) Office of Policy Analysis:

- (1) a report listing the grade, salary, title, and incumbent of each position in the Executive Pay Plan (EPP) as of July 1, 2005, October 1, 2005, January 1, 2006, and April 1, 2006; and
- (2) detail on any lump-sum increases given to employees paid on the EPP subsequent to the previous quarterly report.

Flat rate employees on the EPP shall be included in these reports. Each position in the report shall be assigned a unique identifier, which describes the program to which the position is assigned for budget purposes and corresponds to the manner of identification of positions within the budget data provided annually to DLS' Office of Policy Analysis.

**Explanation:** Legislation adopted during the 2000 session altered the structure of the EPP to give the Governor flexibility to compensate executives at appropriate levels within broad salary bands established for their positions, without reference to a rigid schedule of steps, and through other compensation methods such as a flat rate salary. These reports fulfill a requirement for documentation of any specific recruitment, retention, or other issues that warrant a pay increase.

<b>Information Request</b>	<b>Authors</b>	<b>Due Date</b>
Report of all Executive Pay Plan positions	DBM MDOT	July 15, 2005 October 15, 2005 January 15, 2006 April 15, 2006

- |  | <b><u>Amount Reduction</u></b> |
|--|--------------------------------|
| 8. Increase turnover expectancy to better reflect the number of actual vacancies. The general fund reduction shall be allocated among divisions. The effect on the turnover rate is to increase it from 3.2 to 4.2%. | \$ 75,000 GF                   |

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9. Delete funding in the Department of Budget and Management (DBM) for upfront funding of the eMaryland Marketplace (EMM) vendor winning bid fee. Chapter 515, Acts of 2004 required that DBM develop a fee sufficient to pay the operating costs of EMM. The winning vendor would include the set fee in the winning contract price, and the agency would then withhold the fee from invoice costs. DBM has proposed establishing a streamlined accounting for EMM costs through reimbursable funding to the Department of General Services by agencies for these retained vendor fees. Until DBM develops an appropriate method by which agencies are assessed EMM costs, it has proposed providing agencies with upfront funding for those costs. The reduction reflects the expectation that DBM can recover project costs from the agencies. 1,400,000 GF

10. Adopt the following narrative:

**Annual Report of State Personnel:** The Department of Budget and Management (DBM), Office of Personnel Services and Benefits, shall produce an annual report for agencies in the State Personnel Management System (SPMS) and for select groups not in SPMS covered by collective bargaining, as a document of record. The report shall include, but not be limited to, the same information provided in the *Annual Report of State Personnel, Fiscal Year 2004*, updated for fiscal 2005, except that dollars used in the report shall not be expressed in anything less than the full number. If complete information is not available for certain sections as of the due date of October 1, 2005, updated information shall be provided when it is available.

<b>Information Request</b>	<b>Author</b>	<b>Due Date</b>
Annual Report of State Personnel, Fiscal Year 2005	DBM	October 1, 2005
<b>Total General Fund Reductions</b>		<b>\$ 1,475,000</b>

## *Current and Prior Year Budgets*

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### Current and Prior Year Budgets Office of Personnel Services and Benefits (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
<b>Fiscal 2004</b>					
Legislative Appropriation	\$8,527	\$0	\$0	\$4,318	\$12,846
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	0	0	-47	-47
Cost Containment	-1,230	0	0	0	-1,230
Reversions and Cancellations	-341	0	0	-327	-668
<b>Actual Expenditures</b>	<b>\$6,957</b>	<b>\$0</b>	<b>\$0</b>	<b>\$3,945</b>	<b>\$10,901</b>
<b>Fiscal 2005</b>					
Legislative Appropriation	\$59,516	\$0	\$0	\$4,409	\$63,925
Budget Amendments	-50,781	0	0	-19	-50,800
<b>Working Appropriation</b>	<b>\$8,735</b>	<b>\$0</b>	<b>\$0</b>	<b>\$4,390</b>	<b>\$13,125</b>

Note: Numbers may not sum to total due to rounding.

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## **Fiscal 2004**

- General funds were reduced by \$1,284,637 through the July 30, 2003, BPW cost containment measure. Funding reductions were recorded as both a budget amendment and as a reversion. Programmatic and budgetary changes implemented due to the cost containment measure included, but were not limited to, the reduction of staff information technology training, clerical careers training, and travel related to training; reduced funding for the telecommute program; a reduction in funding for labor consultants; the production of the monthly employee newsletter as an on-line document; and the abolition of 12.5 FTE regular positions. Budget reductions were also made through the reallocation of funds from the OPSB to other divisions of DBM and through reversions.
- Reimbursable funds were reduced by \$46,811 through budget amendment to accommodate the reduction of funds used for the wellness training program and the relocation of the program from one division to another.

## **Fiscal 2005**

- In fiscal 2005 a net \$41,002,798 in general funds has been transferred from DBM, Office of Personnel and Benefits' budget to various State agencies for the purpose of funding the general salary increase. Funding for general salary increases within the agency total \$75,414 and was not transferred, bringing total general fund funding for the general salary increase to \$41,079,418.
- \$9,788,426 in general funds has also been reallocated from the Office of Personnel Services and Benefits to various State agencies to fund ASR reclassifications and salary upgrades. Classifications affected by these funds are public defenders, social services attorneys, assistant general counsels (human relations), assistant State prosecutors, direct service workers in DJS, property assessors, lab scientists, administrative law judges, and banking financial examiners.
- Reimbursable funds originally budgeted to provide a State match of deferred compensation withholding were also withdrawn in fiscal 2005.

## ***Audit Findings***

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Audit Period for Last Audit:	March 1, 1999 – October 10, 2001
Issue Date:	July 2002
Number of Findings:	11
Number of Repeat Findings:	9
% of Repeat Findings:	81.8%

- Finding 1:** Audit reports were not received by the office within the time frame required by the contracts. This condition caused delays in collecting performance penalties from plan administrators, which resulted in a loss of investment income to the State of approximately \$216,000.
- Finding 2:** The office did not require the plan administrators to audit a minimum number of hospital claims or assess the cost/benefits of independently contracting for such audits.
- Finding 3:** The office did not assess the adequacy of the audit efforts of the prescription drug plan administrator or ensure that all recoveries were received.
- Finding 4:** Approximately \$250,000 in overpayments and performance penalties identified by the prescription plan auditor were not recovered.
- Finding 5:** The office did not verify the eligibility of certain health plan participants.
- Finding 6:** The office did not pursue recovery of approximately \$186,000 in overpayments made by one administrator, as identified in two prior audit reports.
- Finding 7:** Funds in two bank accounts were not invested for the benefit of the State, as required by the banking contract, resulting in a loss of interest income of approximately \$64,000.
- Finding 8:** The office had not properly reconciled certain financial records with those of the Comptroller of the Treasury since June 1996.
- Finding 9:** Deposit verification procedures were not adequate.
- Finding 10:** The office had not periodically audited contractual employment contracts executed by State agencies or the recruiting and hiring practices of agencies as required by law.
- Finding 11:** The office had not established sufficient record keeping for employee leave programs.

**Object/Fund Difference Report  
DBM – Office of Personnel Services and Benefits**

<u>Object/Fund</u>	<u>FY04 Actual</u>	<u>FY05 Working Appropriation</u>	<u>FY06 Allowance</u>	<u>FY05 - FY06 Amount Change</u>	<u>Percent Change</u>
<b>Positions</b>					
01 Regular	142.00	138.00	121.00	-17.00	-12.3%
02 Contractual	2.50	5.90	2.50	-3.40	-57.6%
<b>Total Positions</b>	<b>144.50</b>	<b>143.90</b>	<b>123.50</b>	<b>-20.40</b>	<b>-14.2%</b>
<b>Objects</b>					
01 Salaries and Wages	\$ 8,499,121	\$ 10,029,048	\$ 78,746,328	\$ 68,717,280	685.2%
02 Technical & Spec Fees	53,054	213,063	95,235	-117,828	-55.3%
03 Communication	163,472	295,336	205,000	-90,336	-30.6%
04 Travel	25,440	54,968	28,200	-26,768	-48.7%
08 Contractual Services	2,080,801	2,464,581	3,410,396	945,815	38.4%
09 Supplies & Materials	19,660	10,850	14,202	3,352	30.9%
10 Equip - Replacement	19,361	10,000	0	-10,000	-100.0%
13 Fixed Charges	40,471	46,688	40,854	-5,834	-12.5%
<b>Total Objects</b>	<b>\$ 10,901,380</b>	<b>\$ 13,124,534</b>	<b>\$ 82,540,215</b>	<b>\$ 69,415,681</b>	<b>528.9%</b>
<b>Funds</b>					
01 General Fund	\$ 6,956,520	\$ 8,734,720	\$ 78,583,688	\$ 69,848,968	799.7%
09 Reimbursable Fund	3,944,860	4,389,814	3,956,527	-433,287	-9.9%
<b>Total Funds</b>	<b>\$ 10,901,380</b>	<b>\$ 13,124,534</b>	<b>\$ 82,540,215</b>	<b>\$ 69,415,681</b>	<b>528.9%</b>

Note: The fiscal 2005 appropriation does not include deficiencies, and the fiscal 2006 allowance does not reflect contingent reductions.

**Fiscal Summary**  
**DBM – Office of Personnel Services and Benefits**

<u>Program/Unit</u>	<u>FY04 Actual</u>	<u>FY05 Wrk Approp</u>	<u>FY06 Allowance</u>	<u>Change</u>	<u>FY05 - FY06 % Change</u>
01 Executive Direction	\$ 2,168,264	\$ 2,301,201	\$ 1,884,977	-\$ 416,224	-18.1%
02 Division of Employee Benefits	3,097,408	3,408,555	3,607,236	198,681	5.8%
04 Division of Employee Relations	1,354,262	1,405,608	1,045,279	-360,329	-25.6%
05 Division of Employee Development and Training	780,667	909,921	0	-909,921	-100.0%
06 Division of Salary Administration and Classification	1,366,763	1,378,495	1,254,541	-123,954	-9.0%
07 Division of Recruitment and Examination	2,025,510	2,207,047	2,170,893	-36,154	-1.6%
08 Statewide Expenses	0	1,254,156	72,476,195	71,222,039	5678.9%
10 State Labor Relations Board	108,506	259,551	101,094	-158,457	-61.1%
<b>Total Expenditures</b>	<b>\$ 10,901,380</b>	<b>\$ 13,124,534</b>	<b>\$ 82,540,215</b>	<b>\$ 69,415,681</b>	<b>528.9%</b>
General Fund	\$ 6,956,520	\$ 8,734,720	\$ 78,583,688	\$ 69,848,968	799.7%
<b>Total Appropriations</b>	<b>\$ 6,956,520</b>	<b>\$ 8,734,720</b>	<b>\$ 78,583,688</b>	<b>\$ 69,848,968</b>	<b>799.7%</b>
Reimbursable Fund	\$ 3,944,860	\$ 4,389,814	\$ 3,956,527	-\$ 433,287	-9.9%
<b>Total Funds</b>	<b>\$ 10,901,380</b>	<b>\$ 13,124,534</b>	<b>\$ 82,540,215</b>	<b>\$ 69,415,681</b>	<b>528.9%</b>

Note: The fiscal 2005 appropriation does not include deficiencies, and the fiscal 2006 allowance does not reflect contingent reductions.

**Employee Compensation**  
**Fiscal 2006 Allowance Increase over Fiscal 2005 Working Appropriation Expenditures**  
**(\$ in Millions)**

	<u>FY 2004</u>	<u>FY 2005</u>	<u>%</u>	<u>FY 2006</u>		<u>%</u>
	<u>Actual</u>	<u>Working</u>	<u>Change</u>	<u>Allowance</u>	<u>Change</u>	<u>Change</u>
<b>Regular FTE Positions</b>	77,853	78,090	0.3%	78,491	401	0.5%
<b>Contractual FTE Positions</b>	8,412	9,311	10.7%	9,255	-56	-0.6%
<b>Salary</b>						
Base Salary	\$3,491.1	\$3,828.7	9.7%	\$3,832.3	\$3.6	0.1%
2006 General Salary Increase (General Funds)				52.5		
2006 Increments				90.4		
2006 ASRs				0.1		
2006 Judicial Compensation				1.1		
<b>Salary Subtotal<sup>1</sup></b>	<b>\$3,491.1</b>	<b>\$3,828.7</b>		<b>\$3,976.5</b>	<b>\$147.8</b>	<b>3.9%</b>
Additional Assistance	\$10.4	\$13.4	29.3%	\$11.2	-\$2.3	-16.8%
Overtime Earnings	100.3	75.5	-24.7%	74.0	-1.5	-2.0%
Shift Differential	9.8	9.8	-0.7%	10.1	0.4	3.6%
Student Payments (USM Only)	32.0	29.1	-9.1%	29.0	0.0	-0.1%
Other Salary	27.2	24.8	-8.8%	19.2	-5.6	-22.7%
<b>Total Salaries</b>	<b>\$3,670.9</b>	<b>\$3,981.3</b>	<b>8.5%</b>	<b>\$4,120.0</b>	<b>\$138.7</b>	<b>3.5%</b>
<b>New Employees</b>						
Non-higher Education				\$31.0		
Higher Education				33.7		
<b>Abolished Positions</b>					-22.2	
<b>Non-discretionary Employee Benefits</b>						
<b>Health Insurance</b>						
Active Employees <sup>1</sup>	\$469.9	\$538.1	14.5%	\$540.5	-\$12.6	-2.3%
Deficiency Appropriation		15.0				
Retirees <sup>1</sup>	127.6	159.1	24.7%	153.3	-5.8	-3.7%
Special Subsidies	18.1	19.9	9.6%	19.6	-0.3	-1.6%
<b>Total Health Insurance</b>	<b>\$615.7</b>	<b>\$732.1</b>	<b>18.9%</b>	<b>\$713.4</b>	<b>-\$18.7</b>	<b>-2.6%</b>
<b>Retirement</b>						
Early Retirement Surcharge	\$2.5	\$0.1	-97.1%	\$0.1	\$0.0	0.0%
Employees' Retirement System	108.8	118.5	8.9%	149.1	30.6	25.8%
Teachers' Retirement System	12.5	14.9	19.1%	14.8	-0.1	-0.3%
State Police Retirement System	20.1	12.1	-39.5%	21.3	9.1	75.1%
Maryland Transit Administration Pension System	17.0	19.7	15.6%	21.2	1.5	7.8%
Optional Retirement/Pension System	49.3	54.3	10.0%	54.1	-0.2	-0.3%

*F10A02 – DBM – Office of Personnel Services and Benefits*

Appendix 5 (Continued)

	<u>FY 2004</u>	<u>FY 2005</u>	<u>%</u>	<u>FY 2006</u>		<u>%</u>
	<u>Actual</u>	<u>Working</u>	<u>Change</u>	<u>Allowance</u>	<u>Change</u>	<u>Change</u>
DNR Police Retirement System	14.0	16.6	19.0%	17.8	1.2	7.2%
Other Retirement Systems	0.5	0.5	-7.5%	0.4	0.0	-0.5%
<b>Total Retirement<sup>1</sup></b>	<b>\$224.7</b>	<b>\$236.7</b>	<b>5.3%</b>	<b>\$278.8</b>	<b>\$42.2</b>	<b>17.8%</b>
<b>Social Insurance</b>						
Social Security Contributions <sup>1</sup>	\$257.1	\$278.0	8.1%	\$284.9	\$6.9	2.5%
Unemployment Compensation <sup>1</sup>	9.1	13.1	44.7%	13.5	0.4	2.8%
Workers' Compensation	26.2	46.4	77.2%	62.1	10.6	22.9%
Deficiency Appropriation		5.0				
<b>Total Social Insurance</b>	<b>\$292.4</b>	<b>\$342.5</b>	<b>17.1%</b>	<b>\$360.5</b>	<b>\$17.9</b>	<b>5.2%</b>
<b>Discretionary Employee Benefits</b>						
Sick Leave Incentive Program	\$0.3	\$0.4	39.2%	\$0.4	\$0.0	-2.4%
Employee Transit Program	0.0	0.0	n/a	0.0	0.0	n/a
Deferred Compensation Match	0.1	0.1	-2.6%	18.6	18.5	19287.4%
Cost Containment Contingent on Legislation	0.0	0.0	n/a	-14.3	-14.3	n/a
Pay-for-performance Bonuses	0.2	0.0	n/a	0.0	0.0	n/a
Employee Awards	0.4	0.4	8.3%	0.4	0.0	4.8%
Tuition Waivers	18.7	18.1	-3.5%	18.4	0.3	1.9%
<b>Total Incentives</b>	<b>\$19.7</b>	<b>\$19.0</b>	<b>-3.8%</b>	<b>\$23.4</b>	<b>\$4.5</b>	<b>23.6%</b>
<b>Turnover Expectancy</b>						
Turnover Expectancy (Excluding New Positions)	\$0.0	-\$174.7	n/a	-\$198.1	-\$23.4	-13.4%
Cost Containment	0.0	-16.9	n/a	-2.6	14.3	84.5%
<b>Total Offsets<sup>1</sup></b>	<b>\$0.0</b>	<b>-\$191.5</b>	<b>n/a</b>	<b>-\$200.7</b>	<b>-\$9.2</b>	<b>-4.8%</b>
Turnover Expectancy Rate	-	3.8%		3.8%		
<b>Other</b>	<b>\$27.2</b>	<b>\$12.7</b>	<b>-53.4%</b>	<b>\$11.6</b>	<b>-\$1.1</b>	<b>-8.7%</b>
<b>Total Regular Personnel Expenditures</b>	<b>\$4,850.6</b>	<b>\$5,132.7</b>	<b>5.8%</b>	<b>\$5,349.4</b>	<b>\$216.7</b>	<b>4.2%</b>
<b>Contractual Employee Expenses</b>						
Special Payments Payroll <sup>2</sup>	\$157.1	\$189.3	20.5%	\$189.2	-\$0.1	-0.1%
Contractual Expenses – USM	213.3	218.9	2.6%	219.6	0.7	0.3%
Patient and Student Payments	15.4	17.4	13.1%	17.0	-0.4	-2.3%
Social Security Contributions <sup>2</sup>	12.0	14.2	18.2%	14.4	0.2	1.4%
Unemployment Compensation <sup>2</sup>	0.4	0.6	47.1%	0.7	0.1	17.4%
Workers' Compensation <sup>2</sup>	0.0	0.0	-99.4%	0.0	0.0	-24.7%
Contractual Turnover Expectancy <sup>2</sup>	0.0	-11.3	n/a	-12.8	-1.5	13.7%
Turnover Expectancy Rate	-	5.5%		6.3%		
<b>Total Contractual Expenses</b>	<b>\$398.2</b>	<b>\$429.2</b>	<b>7.8%</b>	<b>\$428.1</b>	<b>-\$1.1</b>	<b>-0.3%</b>
<b>Total Personnel Expenditures</b>	<b>\$5,248.8</b>	<b>\$5,561.9</b>	<b>6.0%</b>	<b>\$5,777.5</b>	<b>\$215.6</b>	<b>3.9%</b>

<sup>1</sup> Included in the turnover expectancy calculation for regular positions.

<sup>2</sup> Included in the turnover expectancy calculation for contractual positions.

## General Salary Increases, Increments, and Other Compensation Fiscal 1999 – 2006

Fiscal Year	State Employees		Additional	Maximum Deferred Compensation Match by State	Pay-for-Performance Bonuses	Annual Salary Review Reclassifications	Other
	General Salary Increase	Increments	Police, Natural Resources Police, and Park Ranger Salary Increases				
1999		On time		None	Outstanding: \$300		
	7/1/1998	\$900	4.0%				
	1/1/1999	\$375					
2000		On time		\$600	Outstanding: \$1,000 Exceeds standards: \$500		Salary schedules expand from 6 to 16 steps on 7/1/99 <sup>1</sup>
	7/1/1999	\$638	4.0%				
	1/1/2000	\$637					
2001		On time		\$600	Outstanding: \$1,000 Exceeds standards: \$500		Standard salary schedule expands by 4 grades on 7/1/00 <sup>2</sup> and a new physicians' schedule is developed.
	11/15/2000	4.0%				Yes <sup>3</sup>	
	1/1/2001						
2002		On time		\$600	Outstanding: \$500 Exceeds standards: \$250		Salary schedules expand from 16 to 18 steps on 7/1/01 <sup>1</sup>
	7/1/2001		\$850			Yes <sup>4</sup>	
	1/1/2002	4.0%					
2003		None		\$500	None		
2004		None		None	None		
2005	7/1/2004	\$752	On time	None	None	Yes <sup>5</sup>	
2006 Allow.	7/1/2005	2.0%	On time	\$600 <sup>6</sup>	None	Yes <sup>7</sup>	

<sup>1</sup> The executive pay plan (EPP) and physicians' schedules did not expand.

<sup>2</sup> The standard salary schedule expanded to accommodate management service positions moved off the executive salary schedule.

<sup>3</sup> The following classifications were given upgrades effective January 1, 2001, most of which were in the 1 to 2 grade range: clerical workers, social workers in criminal justice and health services, computer operations and related classifications, professional fiscal and related classifications, election workers (local funds), and assistant superintendents at State hospitals.

<sup>4</sup> Three groups of employees received reclassifications in fiscal 2002: nurses, institutional educators, and addictions counselors who work in local health departments and nonprofits. Statewide increases went to nurse classifications through two grade increases, one on July 1, 2001, and one on January 1, 2002. Institutional educators received increases through an adjustment to their pay plan.

<sup>5</sup> The following classifications are provided upgrades: public defenders, social services attorneys, assistant general counsels (human relations), assistant State prosecutors, direct service workers in the Department of Juvenile Services, property assessors, lab scientists, administrative law judges, and banking financial examiners.

<sup>6</sup> Funding for the State's match of up to \$600 in deferred compensation contributions is withdrawn through budget reconciliation legislation.

<sup>7</sup> The fiscal 2006 annual salary review provides a one-grade salary adjustment for the Deputy State Fire Marshal classification series.

**Regular Full-time Equivalent Positions  
Fiscal 2004 Actuals to 2006 Allowance**

<u>Department/Service Area</u>	2004	2005	<u>Abolitions</u>	<u>New Positions</u>	<u>Net Transfers</u>	<u>2006 Allowance</u>	<b>Change:</b>
	<u>Actual</u>	<u>Working Approp.</u>					<b>FY 05 Wkg to FY 06 Allowance</b>
Legislative	731	740	-	-	-	740	-
Judiciary	3,224	3,224	-	105	-	3,328	105
Legal	1,445	1,511	-	86	-	1,597	86
Executive and Administrative Control	1,572	1,566	-44	2	6	1,530	-36
Financial and Revenue Administration	2,032	2,035	-13	10	-	2,032	-3
Budget and Management	472	468	-33	6	-5	436	-33
Retirement	181	180	-3	10	-	187	8
General Services	728	712	-55	-	-	657	-55
Transportation	9,096	9,044	-16	62	-3	9,087	43
Natural Resources	1,454	1,417	-41	-	-	1,377	-41
Agriculture	434	430	-2	-	-	429	-2
Health and Mental Hygiene	7,710	7,548	-49	48	1	7,548	0
Human Resources	7,379	7,297	-48	-	-	7,248	-48
Labor, Licensing, and Regulation	1,519	1,490	-43	1	-	1,448	-42
Public Safety and Correctional Services	11,231	11,195	-42	195	-	11,348	153
MSDE and Other Education	1,892	1,938	-10	9	2	1,939	1
Housing and Community Development	393	386	-	-	-1	385	-1
Business and Economic Development	299	299	-1	-	-	298	-1
Environment	951	954	-8	10	-	956	2
Juvenile Services	1,939	1,963	-86	214	-	2,091	128
Police and Fire Marshal	2,480	2,479	-	-	-	2,479	-
<b>Subtotal</b>	<b>57,160</b>	<b>56,874</b>	<b>-493</b>	<b>757</b>	<b>-</b>	<b>57,138</b>	<b>264</b>
Higher Education	20,966	21,215	-2	139	-	21,353	138
<b>Total</b>	<b>78,126</b>	<b>78,089</b>	<b>-494</b>	<b>896</b>	<b>-</b>	<b>78,491</b>	<b>402</b>

**Contractual Full-time Equivalent Positions  
Fiscal 2004 Actuals to 2005 Allowance**

<u>Department/Service Area</u>	<u>2004 Actual</u>	<u>2005 Wkg Approp.</u>	<u>2006 Allow.</u>	<u>Change 05-06</u>	<u>Percentage Change 05-06</u>
Judiciary	390.0	391.0	359.0	-32.0	-8.2%
Legal	81.8	110.0	108.0	-2.0	-1.8%
Executive and Administrative Control	204.5	172.3	153.1	-19.2	-11.2%
Financial and Revenue Administration	31.5	41.9	35.4	-6.5	-15.4%
Budget and Management	15.7	20.9	12.0	-8.9	-42.6%
Retirement	20.6	29.5	31.5	2.0	6.8%
General Services	24.3	27.8	26.5	-1.3	-4.5%
Transportation	110.2	168.9	161.4	-7.5	-4.4%
Natural Resources	316.5	439.1	343.2	-95.9	-21.8%
Agriculture	34.5	46.7	43.7	-3.1	-6.5%
Health and Mental Hygiene	411.0	489.3	498.7	9.4	1.9%
Human Resources	51.4	135.1	135.1	0.0	0.0%
Labor, Licensing, and Regulation	155.2	178.2	171.2	-7.0	-3.9%
Public Safety and Correctional Services	234.6	487.7	463.6	-24.1	-4.9%
MSDE and Other Education	188.2	183.6	192.5	8.8	4.8%
Housing and Community Development	49.3	61.7	66.1	4.4	7.1%
Business and Economic Development	36.7	36.1	32.2	-3.9	-10.8%
Environment	15.6	46.0	43.5	-2.5	-5.4%
Juvenile Services	306.0	276.0	216.9	-59.2	-21.4%
Police and Fire Marshal	29.8	47.1	44.6	-2.5	-5.3%
<b>Subtotal</b>	<b>2,707.4</b>	<b>3,388.7</b>	<b>3,137.9</b>	<b>-250.7</b>	<b>-7.4%</b>
Higher Education	5,704.3	5,922.5	6,116.7	194.2	3.3%
<b>Total</b>	<b>8,411.7</b>	<b>9,311.1</b>	<b>9,254.6</b>	<b>-56.5</b>	<b>-0.6%</b>
<b>Non-higher Education Executive Branch Total</b>	<b>2,317.4</b>	<b>2,997.7</b>	<b>2,778.9</b>	<b>-218.7</b>	<b>-7.3%</b>

**Plan Enrollment  
Health, Prescription, and Dental Insurance  
Calendar 2001 – 2005**

	<u>CY 2001</u>	<u>CY 2002</u>	<u>CY 2003</u>	<u>CY 2004<sup>2</sup></u>	<u>CY 2005<sup>2</sup></u>	<b>Avg. Annual Growth Rate <u>CY 01-05</u></b>
<b>Active Employees</b>						
Health Insurance – HMO	14,948	13,408	13,126	13,590	13,714	-2.8%
Health Insurance – POS <sup>1</sup>	28,186	28,842	29,799	27,640	27,287	-1.1%
Health Insurance – PPO <sup>1</sup>	26,890	27,735	28,812	27,979	28,881	2.4%
<b>Health Insurance – Total</b>	<b>70,024</b>	<b>69,985</b>	<b>71,737</b>	<b>69,209</b>	<b>69,882</b>	<b>-0.1%</b>
Prescription Insurance	67,346	67,529	68,507	65,725	66,254	-0.5%
Dental Insurance	56,642	58,020	59,555	58,391	56,927	0.2%
<b>Retired Employees</b>						
Health Insurance – HMO	3,031	2,951	2,902	3,145	3,148	1.3%
Health Insurance – POS <sup>1</sup>	6,464	6,685	6,749	7,495	7,488	5.0%
Health Insurance – PPO <sup>1</sup>	19,489	19,808	20,038	21,134	21,492	3.3%
<b>Health Insurance – Total</b>	<b>28,984</b>	<b>29,444</b>	<b>29,689</b>	<b>31,774</b>	<b>32,128</b>	<b>3.5%</b>
Prescription Insurance	28,655	29,163	29,471	31,614	31,861	3.6%
Dental Insurance	12,384	13,212	13,773	16,060	15,470	7.7%
<b>Proportion in Each Type of Health Insurance</b>						
<b>Active Employees</b>						
Health Insurance – HMO	21%	19%	18%	20%	20%	
Health Insurance – POS	40%	41%	42%	40%	39%	
Health Insurance – PPO	38%	40%	40%	40%	41%	
<b>Retired Employees</b>						
Health Insurance – HMO	10%	10%	10%	10%	10%	
Health Insurance – POS	22%	23%	23%	24%	23%	
Health Insurance – PPO	67%	67%	67%	67%	67%	

<sup>1</sup> Mental health coverage is provided through a separate carrier to each enrollee in the point of service and preferred provider option plans. Health maintenance organization enrollees are provided mental health coverage directly through their plans.

<sup>2</sup> Calendar 2004 enrollment is as of September 30, 2004, and calendar 2005 enrollment is as of January 4, 2005.

Source: Department of Budget and Management

**Monthly Health, Prescription, Mental Health, and Dental Premiums  
January 1 – June 30, 2005 Rates**

	<u>Employee Only</u>	<u>Employee &amp; Child</u>	<u>Employee &amp; Spouse</u>	<u>Family</u>			
<b>Actives and Retirees Not Eligible for Medicare</b>							
Kaiser Permanente HMO	\$36.11	\$72.22	\$72.22	\$90.45			
Optimum Choice HMO	39.32	81.77	81.77	97.50			
BlueChoice HMO	40.66	85.32	85.32	105.71			
CareFirst PPO	72.37	130.26	130.26	180.92			
MLH-Eagle PPO	64.58	116.24	116.24	161.45			
CareFirst POS	43.35	78.03	78.03	108.37			
MD IPA Preferred POS	44.09	79.36	79.36	110.22			
Aetna POS	40.48	72.86	72.86	101.19			
Prescription	39.68	52.74	65.86	79.36			
Mental Health – PPO	1.77	3.18	3.18	4.42			
Mental Health – POS	1.33	2.39	2.39	3.32			
	<u>1M</u>	<u>1M + 1</u>	<u>2M</u>	<u>2+1M</u>	<u>2M+1</u>	<u>3M</u>	<u>Other</u>
<b>Retirees Eligible for Medicare</b>							
Kaiser Permanente HMO	\$23.94	\$60.05	\$47.89	\$90.46	\$84.00	\$71.83	\$90.45
Optimum Choice HMO	25.97	65.28	51.93	97.50	89.15	77.89	97.50
BlueChoice HMO	20.04	60.37	44.04	100.70	64.23	55.09	100.22
CareFirst PPO	36.19	108.54	72.37	166.44	144.74	108.54	180.92
MLH-Eagle PPO	32.29	96.86	64.58	148.52	129.16	96.86	161.45
CareFirst POS	21.67	65.02	43.35	99.70	86.69	65.02	108.37
MD IPA Preferred POS	22.05	66.13	44.09	101.40	88.18	66.13	110.22
Aetna POS	20.24	60.71	40.48	93.10	80.95	60.71	101.19
Mental Health – PPO	0.88	2.65	1.77	4.06	3.53	2.65	4.42
Mental Health – POS	0.66	1.99	1.33	3.05	2.65	1.99	3.32

M = Medicare eligible

Source: Department of Budget and Management; Department of Legislative Services

**Medical Insurance Choice**  
**Employees<sup>1</sup> Choosing Prescription Insurance, as a Percentage of Those Choosing Medical**  
**By State Salary Ranges – February 2005**

	State Salary Ranges									
	\$0 to \$25,000		\$25,001 - \$45,000		\$45,001 – \$60,000		\$60,000 +		Total	
	#	%	#	%	#	%	#	%	#	%
BlueChoice HMO	238	12.5%	2,644	9.4%	947	7.3%	374	5.4%	4,203	8.4%
Kaiser Permanente HMO	130	6.8%	1,469	5.2%	565	4.4%	232	3.4%	2,396	4.8%
Optimum Choice HMO	209	10.9%	1,683	6.0%	548	4.2%	210	3.1%	2,650	5.3%
<b>Health Maintenance Organizations</b>	<b>577</b>	<b>30.2%</b>	<b>5,796</b>	<b>20.7%</b>	<b>2,060</b>	<b>15.9%</b>	<b>816</b>	<b>11.9%</b>	<b>9,249</b>	<b>18.6%</b>
Aetna POS	98	5.1%	1,510	5.4%	625	4.8%	279	4.1%	2,512	5.1%
CareFirst POS	331	17.3%	4,792	17.1%	2,305	17.8%	1,218	17.7%	8,646	17.4%
MD IPA Preferred POS	272	14.2%	4,895	17.5%	2,021	15.6%	858	12.5%	8,046	16.2%
<b>Point of Service</b>	<b>701</b>	<b>36.7%</b>	<b>11,197</b>	<b>40.0%</b>	<b>4,951</b>	<b>38.3%</b>	<b>2,355</b>	<b>34.2%</b>	<b>19,204</b>	<b>38.6%</b>
CareFirst PPO	612	32.0%	10,471	37.4%	5,592	43.2%	3,486	50.7%	20,161	40.5%
MLH-Eagle PPO	20	1.0%	549	2.0%	334	2.6%	225	3.3%	1,128	2.3%
<b>Preferred Provider Organizations</b>	<b>632</b>	<b>33.1%</b>	<b>11,020</b>	<b>39.3%</b>	<b>5,926</b>	<b>45.8%</b>	<b>3,711</b>	<b>53.9%</b>	<b>21,289</b>	<b>42.8%</b>
<b>Total Medical</b>	<b>1,910</b>	<b>100.0%</b>	<b>28,013</b>	<b>100.0%</b>	<b>12,937</b>	<b>100.0%</b>	<b>6,882</b>	<b>100.0%</b>	<b>49,742</b>	<b>100.0%</b>
Prescription, as Percentage of Medical	1,897	99.3%	29,312	104.6%	12,775	98.7%	7,078	102.8%	51,062	102.7%

<sup>1</sup> These data exclude the General Assembly, the Judiciary, the Maryland Transportation Authority, and union employees of the Maryland Transit Administration.

**Impact of Increasing the Portion of the Premiums Paid by the Employee and Retiree by 5%**  
**Monthly Increase in Premiums and Annual State Savings**  
**Calendar 2005 Rates**

	<u>Employee Only</u>	<u>Employee &amp; Child</u>	<u>Employee &amp; Spouse</u>	<u>Family</u>				<u>State Savings Actives</u>	<u>State Savings Retirees</u>
<b>Actives and Retirees Not Eligible for Medicare</b>									
Kaiser Permanente HMO	\$12.04	\$24.07	\$24.07	\$30.15				\$986,896	\$48,272
Optimum Choice HMO	13.11	27.26	27.26	32.50				1,178,958	68,453
BlueChoice HMO	13.55	28.44	28.44	35.24				1,598,571	221,985
CareFirst PPO	18.09	32.57	32.57	45.23				9,647,740	1,605,540
MLH-Eagle PPO	16.14	29.06	29.06	40.36				623,765	142,549
CareFirst POS	14.45	26.01	26.01	36.12				3,618,334	320,595
MD IPA Preferred POS	14.70	26.45	26.45	36.74				3,587,145	450,467
Aetna POS	13.49	24.29	24.29	33.73				1,209,633	64,083
Prescription <sup>1</sup>	9.92	13.18	16.47	19.84				11,782,141	5,007,785
Mental Health – PPO	0.44	0.80	0.80	1.11				252,862	43,134
Mental Health – POS	0.44	0.80	0.80	1.11				258,315	25,461
<b>Subtotal</b>								<b>\$34,744,359</b>	<b>\$7,998,323</b>
	<u>1M</u>	<u>1M+1</u>	<u>2M</u>	<u>2+1M</u>	<u>2M+1</u>	<u>3M</u>	<u>Other</u>	<u>State Savings</u>	
<b>Retirees Eligible for Medicare</b>									
Kaiser Permanente HMO	\$7.98	\$20.02	\$15.96	\$30.15	\$28.00	\$23.94	\$30.15	\$53,494	
Optimum Choice HMO	8.66	21.76	17.31	32.50	29.72	25.96	32.50	35,898	
BlueChoice HMO	6.68	20.12	14.68	33.57	21.41	18.36	33.41	170,540	
CareFirst PPO	9.05	27.14	18.09	41.61	36.18	27.14	45.23	2,302,380	
MLH-Eagle PPO	8.07	24.22	16.14	37.13	32.29	24.22	40.36	311,923	
CareFirst POS	7.22	21.67	14.45	33.23	28.90	21.67	36.12	337,969	
MD IPA Preferred POS	7.35	22.04	14.70	33.80	29.39	22.04	36.74	288,429	
Aetna POS	6.75	20.24	13.49	31.03	26.98	20.24	33.73	45,346	
Mental Health – PPO	0.22	0.66	0.44	1.02	0.88	0.66	1.11	64,715	
Mental Health – POS	0.22	0.66	0.44	1.02	0.88	0.66	1.11	20,481	
<b>Subtotal</b>								<b>\$3,631,173</b>	
<b>Total Savings</b>								<b>\$46,373,855</b>	

M = Medicare eligible

<sup>1</sup>The State does not currently offer a separate prescription benefit for Medicare-eligible retirees.

Source: Department of Budget and Management; Department of Legislative Services

## State Employee Health and Supplemental Benefits Contracts – Calendar 2005

Service Plans	Current Contract Term	Vendor	CY 2004 Expenditures (\$ in Millions)	Value of Contract Award (\$ in Millions)	Expiration Date (Not Including Renewal Options)
Preferred Provider Option (PPO)	09/15/04 through 12/31/09 – 5-year term	CareFirst of Maryland	\$253.0	\$1,617.0 (5-year contract)	Contract expires 12/31/09.
		MAMSI - MLH Eagle	\$20.1	\$179.0 (5-year contract)	Contract expires 12/31/09.
Point-of-Service (POS)	09/15/04 through 12/31/09 – 5-year term	CareFirst	\$79.3	\$485.0 (5-year contract)	Contract expires 12/31/09.
		MAMSI - MDIPA Preferred	\$79.3	\$583.0 (5-year contract)	Contract expires 12/31/09.
		AETNA	\$24.3	\$171.0 (5-year contract)	Contract expires 12/31/09.
Health Maintenance Organization (HMO)	09/15/04 through 12/31/09 – 5-year term	CareFirst	\$35.1	\$284.0 (5-year contract)	Contract expires 12/31/09.
		MAMSI - Optimum Choice	\$22.9	\$181.0 (5-year contract)	Contract expires 12/31/09.
		Kaiser Permanente	\$19.8	\$166.0 (5-year contract)	Contract expires 12/31/09.
Mental Health/Substance Abuse	01/01/01 through 12/31/03 3 years with 3 one-year renewal options	American Psych Systems, Inc.	\$13.5	\$31.4 (3-year contract); \$13.5 (first year renewal option); \$15.1 (second year renewal option) – estimate	Base contract expired 12/31/03; first renewal option, expired 12/31/04; exercised second renewal option, expires 12/31/05.

Service Plans	Current Contract Term	Vendor	CY 2004 Expenditures (\$ in Millions)	Value of Contract Award (\$ in Millions)	Expiration Date (Not Including Renewal Options)
Prescription Drug	01/01/01 through 12/31/03 3 years with 3 one-year renewal options	CaremarkPCS Health (formerly AdvancePCS)	\$293.4	\$661.3 (3-year contract); \$293.4 (first year renewal option); \$355.4 (second year renewal option) – estimate	Base contract expired 12/31/03; first renewal option, expired 12/31/04; exercised second renewal option, expires 12/31/05.
Dental Services (DPPO - Preferred Provider Organization)	09/15/04 through 12/31/07 3 years with 2 one-year renewal options	United Concordia	\$19.5 DPOS and DHMO combined in plan year 2004	Estimated \$43.0 (3-year contract)	Base contract expires 12/31/07.
Dental Services (DHMO Option)	09/15/04 through 12/31/07 3 years with 2 one-year renewal options	United Concordia	See DPPO above	Estimated \$23.2 (3-year contract)	Base contract expires 12/31/07.
		Dental Benefits Provider	\$5.2	Estimated \$45.2 (3-year contract)	Base contract expires 12/31/07.
Term Life Insurance	01/01/03 through 12/31/05 3 years with 2 one-year renewal options	The Standard Insurance Co.	\$11.8	\$34 (3-year contract)	Base contract expires 12/31/05.
Accidental Death and Dismemberment	01/01/03 through 12/31/05 3 years with 2 one-year renewal options	Metropolitan Life	\$2.1	\$6 (3-year contract)	Base contract expires 12/31/05.

Service Plans	Current Contract Term	Vendor	CY 2004 Expenditures (\$ in Millions)	Value of Contract Award (\$ in Millions)	Expiration Date (Not Including Renewal Options)
Long-term Care	01/01/00 through 12/31/03 4 years with 2 one-year renewal options	Unum Life Insurance Company of America	\$0.8	\$2.7 (4-year contract); \$0.8 (first year renewal option). \$0.8 (second year renewal option) – estimate	Base contract expired 12/31/03; first renewal option, expired 12/31/04; exercised second renewal option, expires 12/31/05.
Flexible Spending Accounts	07/15/99 through 07/14/03 with 2 one-year renewal options	ERISA Administrative Services, Inc.	\$0.3	\$1 (3-year contract) administrative fees only; \$0.3 (first year renewal option); \$0.3 (second year renewal option) – estimate	Base contract expired 07/14/03; first renewal option exercised 07/14/04; second 1-year renewal option expires 07/14/05.

Source: Department of Budget and Management

State of Maryland Standard Salary Schedule Fiscal 2006 Annual Rates Effective July 1, 2005																			
G R A D E	B A S E	ST E P	ST E P	ST E P	ST E P	ST E P	ST E P	ST E P	P M O I N T	ST E P	ST E P	ST E P	ST E P	Q U A L I F Y I N G	ST E P	ST E P	ST E P	ST E P	ST E P
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
1	\$15,438	\$15,970	\$16,520	\$17,095	\$17,692	\$18,313	\$18,635	\$18,964	\$19,299	\$19,643	\$19,990	\$20,347	\$20,713	\$21,082	\$21,461	\$21,846	\$22,240	\$22,640	\$23,049
2	\$16,366	\$16,935	\$17,524	\$18,138	\$18,777	\$19,441	\$19,786	\$20,139	\$20,497	\$20,864	\$21,238	\$21,619	\$22,008	\$22,405	\$22,810	\$23,223	\$23,643	\$24,070	\$24,507
3	\$17,360	\$17,968	\$18,600	\$19,257	\$19,939	\$20,650	\$21,020	\$21,396	\$21,782	\$22,174	\$22,573	\$22,981	\$23,397	\$23,822	\$24,255	\$24,697	\$25,147	\$25,605	\$26,072
4	\$18,423	\$19,073	\$19,749	\$20,451	\$21,183	\$21,943	\$22,340	\$22,741	\$23,153	\$23,572	\$24,001	\$24,438	\$24,882	\$25,336	\$25,799	\$26,272	\$26,754	\$27,247	\$27,748
5	\$19,560	\$20,256	\$20,979	\$21,732	\$22,513	\$23,327	\$23,750	\$24,181	\$24,621	\$25,071	\$25,528	\$25,995	\$26,472	\$26,958	\$27,454	\$27,959	\$28,474	\$28,999	\$29,535
6	\$20,777	\$21,521	\$22,295	\$23,100	\$23,936	\$24,807	\$25,260	\$25,721	\$26,192	\$26,672	\$27,163	\$27,664	\$28,173	\$28,692	\$29,222	\$29,764	\$30,316	\$30,878	\$31,450
7	\$22,079	\$22,876	\$23,704	\$24,565	\$25,462	\$26,393	\$26,876	\$27,371	\$27,875	\$28,389	\$28,913	\$29,448	\$29,993	\$30,548	\$31,118	\$31,696	\$32,287	\$32,889	\$33,502
8	\$23,473	\$24,325	\$25,211	\$26,132	\$27,090	\$28,087	\$28,604	\$29,134	\$29,671	\$30,222	\$30,783	\$31,355	\$31,940	\$32,533	\$33,141	\$33,761	\$34,393	\$35,037	\$35,693
9	\$24,964	\$25,876	\$26,823	\$27,810	\$28,835	\$29,902	\$30,456	\$31,021	\$31,598	\$32,187	\$32,786	\$33,399	\$34,023	\$34,660	\$35,311	\$35,973	\$36,648	\$37,337	\$38,039
10	\$26,559	\$27,535	\$28,549	\$29,604	\$30,701	\$31,842	\$32,436	\$33,040	\$33,658	\$34,288	\$34,930	\$35,585	\$36,253	\$36,935	\$37,629	\$38,339	\$39,061	\$39,798	\$40,550
11	\$28,265	\$29,309	\$30,395	\$31,524	\$32,697	\$33,918	\$34,553	\$35,202	\$35,862	\$36,535	\$37,222	\$37,924	\$38,638	\$39,367	\$40,111	\$40,870	\$41,645	\$42,436	\$43,241
12	\$30,092	\$31,208	\$32,369	\$33,578	\$34,835	\$36,140	\$36,819	\$37,512	\$38,219	\$38,939	\$39,675	\$40,425	\$41,190	\$41,969	\$42,766	\$43,579	\$44,406	\$45,250	\$46,110
13	\$32,045	\$33,240	\$34,484	\$35,776	\$37,118	\$38,517	\$39,243	\$39,984	\$40,742	\$41,513	\$42,300	\$43,102	\$43,921	\$44,755	\$45,607	\$46,476	\$47,361	\$48,264	\$49,185
14	\$34,137	\$35,416	\$36,746	\$38,128	\$39,565	\$41,062	\$41,840	\$42,632	\$43,443	\$44,268	\$45,109	\$45,968	\$46,844	\$47,738	\$48,648	\$49,578	\$50,527	\$51,494	\$52,482
15	\$36,374	\$37,743	\$39,165	\$40,644	\$42,184	\$43,785	\$44,616	\$45,465	\$46,331	\$47,213	\$48,115	\$49,033	\$49,970	\$50,927	\$51,901	\$52,896	\$53,910	\$54,944	\$55,997
16	\$38,768	\$40,232	\$41,755	\$43,338	\$44,986	\$46,697	\$47,588	\$48,495	\$49,423	\$50,367	\$51,331	\$52,313	\$53,317	\$54,340	\$55,383	\$56,446	\$57,533	\$58,640	\$59,768
17	\$41,329	\$42,896	\$44,523	\$46,218	\$47,980	\$49,813	\$50,765	\$51,736	\$52,727	\$53,739	\$54,770	\$55,822	\$56,895	\$57,990	\$59,105	\$60,244	\$61,406	\$62,590	\$63,797
18	\$44,070	\$45,745	\$47,489	\$49,302	\$51,188	\$53,149	\$54,168	\$55,206	\$56,268	\$57,349	\$58,454	\$59,579	\$60,726	\$61,898	\$63,093	\$64,309	\$65,552	\$66,819	\$68,110
19	\$47,003	\$48,797	\$50,661	\$52,601	\$54,617	\$56,716	\$57,805	\$58,919	\$60,054	\$61,212	\$62,392	\$63,596	\$64,825	\$66,077	\$67,355	\$68,659	\$69,989	\$71,344	\$72,725
20	\$50,141	\$52,060	\$54,054	\$56,130	\$58,287	\$60,532	\$61,700	\$62,891	\$64,105	\$65,343	\$66,606	\$67,895	\$69,210	\$70,551	\$71,918	\$73,313	\$74,736	\$76,185	\$77,664
21	\$53,498	\$55,552	\$57,688	\$59,907	\$62,216	\$64,617	\$65,867	\$67,141	\$68,440	\$69,765	\$71,117	\$72,496	\$73,903	\$75,337	\$76,800	\$78,293	\$79,814	\$81,367	\$82,949
22	\$57,091	\$59,288	\$61,572	\$63,948	\$66,420	\$68,989	\$70,324	\$71,689	\$73,078	\$74,497	\$75,943	\$77,418	\$78,922	\$80,458	\$82,024	\$83,620	\$85,250	\$86,913	\$88,608
23	\$60,935	\$63,286	\$65,730	\$68,273	\$70,918	\$73,667	\$75,096	\$76,555	\$78,042	\$79,558	\$81,107	\$82,686	\$84,295	\$85,940	\$87,613	\$89,322	\$91,065	\$92,843	\$94,658
24	\$65,048	\$67,564	\$70,180	\$72,900	\$75,728	\$78,671	\$80,200	\$81,763	\$83,354	\$84,977	\$86,632	\$88,321	\$90,044	\$91,802	\$93,595	\$95,423	\$97,288	\$99,191	\$101,131
25	\$69,449	\$72,142	\$74,940	\$77,850	\$80,877	\$84,026	\$85,662	\$87,333	\$89,036	\$90,772	\$92,544	\$94,352	\$96,195	\$98,077	\$99,993	\$101,949	\$103,945	\$105,980	\$108,054
26	\$74,159	\$77,039	\$80,032	\$83,148	\$86,387	\$89,755	\$91,506	\$93,293	\$95,115	\$96,974	\$98,870	\$100,803	\$102,776	\$104,789	\$106,840	\$108,933	\$111,070	\$113,249	\$115,471

**Fiscal 2006 Cost Containment Actions**  
**As Submitted by the Agency**  
**Estimated Fiscal 2006 Savings**  
**Compared to Fiscal 2005**

<u>Activity</u>	<u>Program</u>	<u>General Funds</u>	<u>Position Reduction</u>	<u>Impact of Action</u>
<b>Office of Personnel Services and Benefits</b>				
<b>Executive Direction</b>				
Reassessed staffing levels vs. needs	F10A02.01	\$148,617	2.00	No operational change.
Overall reduction in support needs for OPSB		80,000		
<b>Employee Benefits</b>				
Reassessed staffing levels vs. needs	F10A02.02		1.00	<b>52k reimbursable funds.</b> No operational change.
<b>Employee Relations</b>				
Automating MS-310 process	F10A02.04	194,829	4.00	No operational change.
Reassessed staffing levels vs. needs		51,741	1.00	No operational change.
<b>Employee Development and Training</b>				
Eliminated the centralized, statewide support function.	F10A02.05	385,721	6.00	Agencies provide a degree of own training and will utilize private sector more. Training was reimbursable from agencies but program support was from general funds.
Will continue personnel-related training with other existing staff.				
<b>Salary and Classification</b>				
Reassessed staffing levels vs. needs	F10A02.06	64,474	1.00	No operational change.
<b>Recruitment and Examination</b>				
Reassessed staffing levels vs. needs	F10A02.07	49,642	1.00	No operational change.
<b>State Labor Relations Board</b>				
Reassessed staffing levels vs. needs	F10A02.10	44,215	1.00	No operational change.
Reduced program support		42,000	0.00	No operational change.
<b>Total General Fund Savings</b>		<b>\$1,061,239</b>	<b>17.00</b>	

**Fiscal 2005 Working Positions in "At-will" Status<sup>1</sup>:  
Special Appointments, Executive Service, and Management Service**

<u>Department/Service Area</u>	<u>Officials and Admin.</u>	<u>Professionals</u>	<u>Other Job Families</u>	<u>Total At-will</u>	<u>Special Appointment Only</u>
Legislature	0	0	552	552	552
Judiciary and Other Legal	179	580	67	826	744
Executive and Administrative Control	333	350	91	774	539
Financial and Revenue Administration	175	21	13	209	50
Budget and Management	84	72	45	201	134
Retirement	38	29	4	70	40
General Services	60	25	7	92	41
Transportation	455	186	34	675	0
Natural Resources	144	26	13	183	58
Agriculture	28	8	3	39	17
Health and Mental Hygiene	326	183	31	540	253
Human Resources	173	143	14	330	121
Labor, Licensing, and Regulation	113	26	8	147	57
Public Safety and Correctional Services	214	240	89	543	350
MSDE and Other Education	151	855	21	1,027	926
Housing and Community Development	104	60	19	183	100
Business and Economic Development	117	108	32	257	239
Environment	95	23	8	126	46
Juvenile Services	75	50	5	130	65
Police and Fire Marshal	21	4	46	71	52
<b>Total Non-higher Education</b>	<b>2885</b>	<b>2989</b>	<b>1102</b>	<b>6,975</b>	<b>4,382</b>

<sup>1</sup> Excludes positions that are to be abolished in the fiscal 2006 allowance.