Economic Impact Statement

Montgomery County, Maryland

Bill 9-24 Group G Pension – Social Security Integration

SUMMARY

The Office of Legislative Oversight (OLO) anticipates Bill 9-24 would have a negative impact on economic conditions in the County in terms of the Council's priority indicators. By adjusting the Social Security retirement age in calculating pensions for Group G employees, the Bill would increase the actuarial value of income for current and future Montgomery County Fire and Rescue Service (MCFRS) retirees. Based on the low rates of County residence among retired MCFRS employees, a minor share of the income increase likely would go to residents. The remainder would constitute significant capital outflows in the form of government revenue used to fund pension increases for the majority of MCFRS employees who would reside outside the County. Capital outflows would result in forgone economic activity that would negatively impact residents and private organizations. Moreover, capital outflows caused by the policy change would occur indefinitely if low rates of County residence among MCFRS retirees continue. Because there are no indications current residence patterns among current and retired MCFRS employees will drastically change, OLO believes the negative impacts of the Bill would be significant in the long term.

BACKGROUND AND PURPOSE OF BILL

The Employees' Retirement System (ERS) is one of five retirement plans offered to County employees.[1] The ERS is a defined benefit plan, which provides a fixed, pre-established benefit for employees at retirement.[2] Within the ERS, Group G employees include paid firefighters, fire officer, and rescue service personnel.[3]

The purpose of Bill 9-24 is to increase pension benefits for Group G employees. The Bill would implement provisions of the collective bargaining agreement between the County Executive and the Montgomery County Career Fire Fighters Association, International Association of Fire Fighters (Local 1664, AFL-CIO).[4]

Currently, after a Group G employee reaches the Social Security retirement age, their pension benefits are reduced. Table 1 shows the current Social Security retirement age, which differs depending on year of birth.[5] If enacted, Bill 9-24 would require pension benefits to be reduced when the employee reaches the maximum Social Security retirement age of 70.

[1] About Montgomery County Employee Retirement Plans.
[2] Defined Benefit Plan.
[3] Summary Description for Sworn Fire Personnel in Retirement Group G.
[4] Introduction Staff Report for Bill 9-24.
[5] Summary Description for Sworn Fire Personnel in Retirement Group G.

Table 1: Social Security Retirement Age by Birth Year

Birth Year	Social Security Retirement Age
Before 1938	65
During or after 1938 and before 1955	66
During or after 1955	67

Source: Summary Description for Sworn Fire Personnel in Retirement Group G, Montgomery County Employee Retirement Plans.

The proposed changes would increase County expenditures by approximately $600,000 in FY25 and by $1.2 million annually after FY25.[6]

The Council introduced Bill 9-24, Group G Pension – Social Security Integration, at the request of the County Executive on April 9, 2024.

INFORMATION SOURCES, METHODOLOGIES, AND ASSUMPTIONS

Per Section 2-81B of the Montgomery County Code, the purpose of this Economic Impact Statement is to assess, both, the impacts of Bill 9-24 on residents and private organizations in terms of the Council's priority economic indicators and whether the Bill would have a net positive or negative impact on overall economic conditions in the County.[7]

Scope of Analysis: The County would use tax revenue to fund the pension increase established by Bill 9-24. Importantly, funding the increase would entail an internal transfer from the County to the recipients. For this reason, the Bill's total economic impact would depend on: (a) the per year economic impacts to County residents and businesses from the pension increase; and (b) the per year economic opportunity cost of the forgone County revenues. Because OLO does not know how the forgone revenues would otherwise be used in the absence of enacting Bill 9-24, this analysis does not account for the economic impacts of alternative government spending with the forgone revenue.

Methodology: To assess the economic impacts of Bill 9-24, this analysis estimates how much of the pension benefits increase likely would go to resident and nonresident households. The amount that would likely go to nonresident households represents capital outflows, i.e., taxpayer dollars leaving the County.

Information Sources: The analysis here draws on the following:

- Estimates of the FY25 and Annual Costs to the County of the pension adjustments provided in the Introduction Staff Report for the Bill
- Data on the residence of active and retired MCFRS employees provided by the Office of Human Resources (OHR)

[6] Introduction Staff Report for Bill 9-24
[7] Montgomery County Code, Sec. 2-81B.

VARIABLES

The primary variables that would affect the economic impacts of enacting Bill 9-24 are the following:

- Total increase in pension benefit; and
- place of residence.

IMPACTS

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

Residents

OLO anticipates Bill 9-24 would have overall negative impacts on County residents in terms of the Council's priority economic indicators.

Resident MCFRS Employees

The Bill would primarily benefit MCFRS employees. By adjusting the Social Security retirement age in calculating pensions for Group G employees, the Bill would increase the actuarial value of income for current and future MCFRS retirees.

Importantly, the Bill's impacts to County residents (as well as businesses) largely would depend on how many affected MCFRS employees *reside within the County*. Data provided by OHR on the residence of *active* and *retired* County employees as of May 2022 indicate that far fewer MCFRS employees who would reside within the County during retirement would benefit from the pension increase than those who would reside outside the County.

As of May 2022, 19 percent of active MCFRS personnel reside in the County. (MCFRS personnel are an extreme outlier in this way, as 60% of non-MCFRS employees reside in the County.) Thirteen percent of retired MCFRS employees and beneficiaries (e.g., surviving spouse) who participate in the Employee's Retirement System currently live in the County. See **Table 2**. Thus, OLO anticipates the pension increases would positively impact a minor segment of County residents.

Table 2. Place of Residence for Active and Retired MCFRS Employees as of May 2022

	Montgomery, MD	Other Jurisdictions
Active MCFRS Employees	242	1,004
	19%	81%
Retired MCFRS Employees and Beneficiaries	76	516
	13%	87%

Data Source: Office of Human Resources; Introduction Staff Report for Bill 9-24

Capital Outflows

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

Table 3 presents estimates of the amount of County contributions that would go towards resident and nonresident pension earnings, based on the Bill's estimated fiscal impact estimates and rates of residence among retired MCFRS employees. As shown below, OLO estimates the pension increase would approximately be $93,000 for residents and $526,000 for nonresidents in FY25 and $186,000 for residents and $1.1 million beyond FY25.

Table 3. County Contributions by Residence

	County Contributions	Residents 15%	Nonresidents 85%	Difference
FY25	$618,937	$92,841	$526,096	($433,256)
Annual Cost Beyond FY25	$1,237,873	$185,681	$1,052,192	($866,511)

Data Sources: Office of Human Resources; Introduction Staff Report for Bill 9-24

In sum, the Bill would benefit MCFRS retirees who would reside in the County during retirement. However, given the magnitude of the capital outflow, the Bill would result in forgone economic activity that would negatively impact residents in terms of the Council's priority economic indicators.

Businesses, Non-Profits, Other Private Organizations

OLO anticipates enacting Bill 9-24 would have mixed, yet overall negative, impacts on private organizations in the County. Higher pension payments to residents likely would increase household spending on goods and services, benefiting certain County-based businesses. However, as indicated in **Table 3**, the Bill would result in significant capital outflows, which would result in forgone economic activity that would negatively impact private organizations in terms of the Council's priority economic indicators.

Net Impact

OLO anticipates Bill 9-24 would have a negative impact on economic conditions in the County in terms of the Council's priority indicators. By adjusting the Social Security retirement age in calculating pensions for Group G employees, the Bill would increase the actuarial value of income for current and future Montgomery County Fire and Rescue Service (MCFRS) retirees. Based on the low rates of County residence among retired MCFRS employees, a minor share of the income increase likely would go to residents. The remainder would constitute significant capital outflows in the form of government revenue used to fund pension increases for the majority of MCFRS employees who would reside outside the County. Capital outflows would result in forgone economic activity that would negatively impact residents and private organizations. Moreover, capital outflows caused by the policy change would occur indefinitely if low rates of County residence among MCFRS retirees continue. Because there are no indications current residence patterns among current and retired MCFRS employees will drastically change, OLO believes the negative impacts of the Bill would be significant in the long term.

DISCUSSION ITEMS

Not applicable

WORKS CITED

About Montgomery County Employee Retirement Plans, Montgomery County Employee Retirement Plans.

Defined Benefit Plan, Internal Revenue Service, Updated June 15, 2022.

Introduction Staff Report for Bill 9-24, Montgomery County Council, April 9, 2024.

"Meeting the Housing Needs of Older Adults in Montgomery County." Montgomery County Planning Department, May 2018.

Montgomery County Code. Sec. 2-81B, Economic Impact Statements.

Summary Description for Sworn Fire Personnel in Retirement Group G, Montgomery County Employee Retirement Plans, August 2023.

CAVEATS

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

AUTHOR

Stephen Roblin (OLO) prepared this report.