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**DEPARTMENT OF BUDGET AND MANAGEMENT – OFFICE OF  
PERSONNEL SERVICES AND BENEFITS**

**Testimony of  
David R. Brinkley  
Secretary**

*Senate Budget and Taxation Committee  
February 21, 2017*

*House Appropriations Committee  
February 24, 2017*

The Department of Budget and Management (DBM) appreciates this opportunity to respond to the Department of Legislative Services' (DLS) analysis of the Office of the Personnel Services and Benefits budget.

**ISSUES**

**Statewide Employee Compensation**

The retention rate of permanent employees in the State Personnel Management System at the end of FY 16 was 88%. Since FY 11, the retention rate has ranged from 89% to 91%. DBM expects this rate to remain the same or improve since employees received an increment in FY 17. DBM expects to continue to utilize more targeted increases for jobs where the State experiences recruitment or retention difficulties.

DBM would note that although the average employee salary growth between 2004 and 2016 appears low at 2.2%, it has kept up with inflation. The average annual inflation rate over the same period was 2.07%. DBM would further note that the cost of employee benefits to the state has also increased faster than inflation over this period.

## **Statewide Hiring Freeze Policies**

The Hiring Freeze Exemption (HFE) process is a management tool to make sure that agencies are living within the turnover calculation. Furthermore it helps to align spending priorities to hiring priorities. Regardless of the fund type, the Administration believes that this exercise should be undertaken to protect tax payer resources. The HFE process predates this Administration, but is a worthwhile process.

In general the Administration does not believe that services are being impacted by vacancies. There is always a degree of churn in the workforce.

## **Statewide Personnel System Implementation**

The recent pay issues within the Department of Public Safety and Correctional Services (DPSCS) are attributed the substantial manual effort to enter approximately 6,000 correctional timecards into the new system. The result has been primarily a delay in paying employees full overtime in the pay period in which it was worked. Historically overtime payments have lagged one to two pay periods. Human entry errors have also adversely impacted pay, however, DPSCS has been providing employees with pay advances to ensure that they receive their net pay each pay period.

The implementation of a new automated human resources and timekeeping system comes with a significant change management effort. The State skipped an entire generation of technology and it is now implementing a state-of-the art system used by over 1,500 public and private entities. Since the full go-live in May of 2016, the system has paid over 35,000 employees each pay period. The October go-live at DPSCS has presented unique challenges because the workforce cannot access computer terminals due to security concerns. DBM has worked with DPSCS to provide additional training for HR and Payroll staff to limit user error.

DBM is now focused on the implementation of the final system module, on-line benefits enrollment. The upcoming open enrollment in October will be fully on-line.

With regard to the potential miscalculations from the legacy system, it has been determined that those miscalculations were much more limited than initially thought. DBM's internal auditors are continuing to review the past payroll data but at this point, any miscalculations appear to be limited to the under calculation of the overtime rate for uniformed officers of the Maryland State Police.

## **Health Insurance Account**

To the extent that agencies have been under budgeted, it is assumed they will absorb this cost.

## **Connecting Members with Health Care Costs**

Websites offering the ability to compare costs of healthcare services and procedures are relatively new and generally designed to support individuals enrolled in high deductible health plans (HDHPs) wherein the participant is liable for the first \$2,500 (or more) of healthcare expenses before the plan begins to share in the cost. The State Program offers comprehensive coverage with minimal participant out of pocket costs making such tools less useful to our participants.

## **The Revised Wellness Program**

DBM is encouraged by the early successes experienced in the wellness plan rolled out for the 2015 plan year. Adult physicals, key preventive screenings, and treatment compliance showed improvement in 2015 over 2014. Similar trends continue in 2016 over 2015. With the elimination of the surcharges, we have received positive feedback from employees and attendance at the various health fairs is robust. Our actual participation rates exceeded the norms illustrating that our participants are engaged in improving their health and helping to ensure the sustainability of the Program.

The cost of the waived copays for Primary Care Provider (PCP) office visits has been modest. For 2015 over 53,000 individuals qualified for the waiver at a cost to the Program of under \$800,000. In 2016, the number of individuals qualifying for the PCP copay waiver doubled to over 120,000, at a cost to the State of approximately \$1.8 million. Our early numbers demonstrate the wellness plan is motivating our participants to make their health a priority by engaging in the tools provided such as weight loss plan reimbursement, preventive screenings and establishing a relationship with a PCP.

It is important to note that wellness “savings” come in the form of costs avoided as population health improves and appear as the flattening the trend line. Generally, it takes about five years under a wellness plan to see the effect of the improved health of the population on costs. Collection of surcharges or penalties was not included in projected savings through the wellness plan. Subsequently, the elimination of those features does not impact savings projections.

## **Employee Assistance Program**

The Employee Assistance Program (EAP) allows employees, who are referred by their supervisors, to receive between one and three free counseling sessions. Ultimately most employees are referred to utilize counseling services provided through their benefits plan. Employee participation in EAP is voluntary and confidential. Given the confidential nature of the reasons for the referrals and the HIPAA laws restricting access to information from health insurers, DBM cannot reasonably assess why the program is not having as much of a positive impact on employees as in previous years. This program assists employees who have difficult and complex problems stemming from social, psychological and economic issues. Even with the decline in program performance, the majority of employees who participate indicate that the program has helped them.

## **DLS RECOMMENDATIONS**

DBM concurs with six of the eight recommendations proposed by the analyst. The Department does not concur with recommendations 1 and 2 as discussed below.

### **Recommendation 1: Restrict funds until the department submits closeout information on the Employee and Retiree Health Insurance Account.**

**DBM Response:** Oppose. DBM has, and continues to, provide timely close out information on the Employee and Retiree Health Insurance account.

### **Recommendation 2: Restrict \$100,000 unit a report is submitted on employee churn from fiscal 2007 to 2016.**

**DBM Response:** Oppose. DBM has indicated that this data is being gathered. The report requires the collection of extensive data from a decommissioned legacy system. DBM will provide the report as soon as the data is collected and its accuracy verified.

### **Recommendation 3: Reduce funds for retirement reinvestment to include the General Assembly and Judiciary.**

**DBM Response:** Concur.

### **Recommendation 4: Add annual “Rule of 100” limit on position creation.**

**DBM Response:** Concur.

### **Recommendation 5: Add annual language requiring a report on State positions.**

**DBM Response:** Concur.

### **Recommendation 6: Add annual language for Executive Pay Plan reporting.**

**DBM Response:** Concur.

### **Recommendation 7: Add annual language restricting the movement of employees into abolished positions.**

**DBM Response:** Concur.

### **Recommendation 8: Add annual language requiring reporting of employee and retiree health insurance receipts and spending.**

**DBM Response:** Concur.