

Department of Legislative Services  
Maryland General Assembly  
2001 Session

FISCAL NOTE  
Revised

House Bill 815 (Delegate Proctor, *et al.*)  
Appropriations

Budget and Taxation

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Employees' Retirement and Pension Systems - Reemployment of Retired  
Personnel

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This pension bill exempts from the reemployment earnings limitation a retiree of the Employees' Retirement System (ERS) or Employees' Pension System (EPS) who: (1) prior to retirement was employed by the State or a participating governmental unit as a public school bus driver; (2) is reemployed by such an employer as a public school bus driver; and (3) meets certain performance criteria.

The bill takes effect July 1, 2001 and sunsets June 30, 2004.

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Fiscal Summary

**State Effect:** Administrative expenses of the State Retirement Agency could increase by a minimal amount to track exemptions from the earnings limitation.

**Local Effect:** Employer pension contributions for local governments that participate in the State Retirement and Pension System (SRPS) could increase if members retire earlier than anticipated because of the absence of the reemployment earnings limitation. Any such increase is assumed to be minimal and could be partially offset by reduced recruiting and training costs by local boards of education due to utilization of reemployed retirees.

**Small Business Effect:** None.

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## Analysis

**Current Law:** Retirees of the EPS and ERS who receive a service retirement allowance or vested allowance may return to temporary, contractual, or permanent employment with a participating employer of the State Retirement and Pension System (SRPS). Current law, however, requires a reduction in a retiree's allowance dollar for dollar by the amount any earnings from such a participating employer exceed the difference between the retirees' basic allowance at time of retirement and the retiree's average final salary, with certain exceptions. The retiree must advise the board of trustees of the SRPS in writing of any employment with a participating employer and the amount of annual compensation earned with the participating employer.

As an example, assume that an EPS member retires with 30 years of service effective July 1, 1998. The member's average final salary at time of retirement was \$40,000 and the basic annual allowance is \$15,000. The member then returns to employment. The reemployed member's annual compensation for calendar 2000 is \$30,000. The earnings limitation, the difference between the average final salary and the annual basic allowance, is \$25,000. The retiree has exceeded the earnings limitation by \$5,000. The retirement agency must reduce future payments to this retiree by \$5,000.

Under current law as well as under the bill, retired members do not accrue additional pension service credit if they are reemployed with a participating employer. They do, however, receive their retirement benefit simultaneously with their reemployment salary.

**Background:** Several bills have been introduced in recent sessions to exempt certain classes of retirees from the earnings limitation. Some of these proposals have been enacted, while others have not. Two bills, Chapter 518 of 1999 and Chapter 245 of 2000, for classroom teachers and principals respectively, created exemptions from the earnings limitation under certain circumstances in order to address statewide teacher and principal shortages. This exemption from the limitation sunsets on June 30, 2004. The exemption for principals also expires on June 30, 2004. The State Department of Education advises that approximately 500 teachers are currently utilizing the exemption in calendar 2000.

### *Other States*

In 1998 the State Retirement Agency surveyed the other 49 state public employee pension systems on the reemployment issue. Almost all the responding systems place some type of restriction on reemployment with a participating employee. The majority of plans either prohibit reemployment or suspend the retirement benefit entirely during reemployment. A smaller number of systems cancel the pension benefit and restore

membership. The smallest group of respondents (including Maryland) offset the pension benefit instead of suspending the entire pension, based on an earnings limitation.

**State Expenditures:** The State Retirement Agency may experience a minor increase in administrative costs in tracking the additional retirees reemployed under this proposal, and in verifying that these retirees are not subject to the earnings limitation. The State has relatively few bus drivers and it is assumed the bill will have little impact on the State in that regard.

**Local Expenditures:** For wages earned in calendar 1998, the last period in which data is available, the SRPS is currently offsetting the retirement benefits of 66 members of the employees' systems with a total offset amount of \$219,800. Even if all 66 members were eligible under the bill and no longer subject to the offset, the increase in pension benefit payments (because fewer earnings offsets would be enforced) and the resulting increase in employer pension contributions would be minimal.

More significantly, however, the State's actuary advises that if the absence of a reemployment earnings limitation encourages members to retire earlier than they otherwise would, SRPS actuarial liabilities will increase. There are approximately 31,000 retired members of the employees' systems who were State employees and 9,500 local government retirees of these systems. In addition, there are approximately 1,800 active members of the employees' systems who -- based solely on years of service -- are eligible for immediate full retirement. There are an indeterminate number of additional members eligible based on age, or eligible for early retirement based on age or years of service.

It cannot be reliably determined at this time how many of these retirees were formerly bus drivers and who would seek reemployment as bus drivers under the bill. The boards of education of 18 of the 24 jurisdictions participate in the SRPS for their general employees, as do 80 other local governmental units. Prince George's County Board of Education -- the largest board of education participating in the employees' systems -- advises that it currently employs approximately 1,200 school bus drivers. The retirement agency notes that if a bus driver for disabled students is also the bus attendant, the bus driver is in the teachers' systems and would not be affected by the bill.

Any reduction in the average age of retirement, and resulting actuarial loss, is assumed to be relatively small. Any such loss would be incorporated into the contribution rate paid by all participating local governments. Offsetting the potential increase in actuarial costs could be reduced recruiting and training costs by boards of education due to utilization of reemployed retirees. The amount of such savings cannot be reliably estimated at this time.

**Additional Comments:** The previous legislation addressing labor shortages with the local boards of education, discussed above, contained sunset provisions that terminated the bills in 2004.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** State Retirement Agency; Milliman & Robertson, Inc.;  
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