

**Department of Legislative Services**  
Maryland General Assembly  
2001 Session

**FISCAL NOTE**  
**Revised**

House Bill 316           (Delegates Rosenberg and Eckardt)  
Appropriations

Budget and Taxation

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**Pensions and Retirement - Reemployment of Retirees - Health Care Practitioners**

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This emergency pension bill exempts from the reemployment earnings limitation a retiree of the Employees' Retirement System (ERS) or Employees' Pension System (EPS) who is reemployed on a contractual basis by the Department of Health and Mental Hygiene (DHMH) as a health care practitioner in: (1) a State residential center; (2) a chronic disease center; (3) a State facility; or (4) a local health department. The Department of Health and Mental Hygiene must notify the State Retirement Agency of any retirees who qualify for the exemption. These retirees are also exempted from the 2% overall limit on reemployment of State employees who accepted the early retirement incentive under Chapter 353 (SB 1) of 1996 or Chapter 736 of 1997, which provided a similar incentive to certain employees laid off from the Great Oaks Center.

The bill sunsets on June 30, 2004.

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**Fiscal Summary**

**State Effect:** Potential increase in State employer pension contributions if members retire earlier than anticipated because of the absence of the reemployment earnings limitation.

**Local Effect:** Potential minimal decrease in recruiting and training costs at local health departments.

**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 major exemptions, 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. Over half the systems (54%) suspend the retirement benefit entirely during reemployment. A smaller number of systems (24%) cancel the pension benefit and restore membership. The

smallest group of respondents (18%, including Maryland, offset the pension benefit (instead of suspending the entire pension) based on an earnings limitation. Given recent nationwide labor shortages, however, it would not be surprising if other states have altered their reemployment restrictions since the survey.

No previous exemption from the earnings limitation has also exempted the retiree from the overall limits set on reemployment under the early retirement incentive laws.

**State 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. DHMH advises that the term "health care practitioner" includes doctors, nurses, therapists, social workers, pharmacists, psychologists, and speech pathologists. There are approximately 31,000 retired members of the employees' 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 estimated how many of these retired or soon-to-retire members meet the bill's criteria and would seek employment if the current limitations were removed under the above circumstances.

For illustrative purposes, the State's actuary informally estimates that if earlier retirement patterns by employees' systems members causes the average age of retirement of a member to decrease by one year, the additional normal cost and unfunded liabilities to the system would increase employer contributions by approximately \$15 million per year. This is an outside cost estimate; any smaller reduction in the retirement age, however, would result in a proportionate increase in State costs.

The 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.

Offsetting the potential increase in actuarial costs could be reduced recruiting and training costs due to utilization of reemployed retirees. DHMH advises that there are

3,490 health care practitioner positions within DHMH as of January 2001. About 10% (345) are vacant. Current or soon-to-be retirees may be a source of such employment, potentially at a cost lower than the cost of training and recruiting a new employee.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Department of Legislative Services

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