

Department of Legislative Services
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FISCAL AND POLICY NOTE

House Bill 413
Appropriations

(Delegate Kach, *et al.*)

Teachers' Retirement System or Teachers' Pension System - Reemployed Retirees - Earnings Limitation

This bill changes the earnings limitation for reemployed retirees of the Teachers' Retirement System or the Teachers' Pension System. It increases the amount of salary a reemployed retiree may earn before the retirement allowance is reduced during reemployment with a participating employer to the amount by which the sum of the individual's initial annual basic retirement allowance and current compensation exceeds the compensation the individual would have been earning if the individual had not retired.

Fiscal Summary

State Effect: State pension liabilities will increase to the extent that: (1) retirees are prompted to return to employment; and (2) current reemployed retirees increase their working hours. Both groups will forfeit less of their pension benefit under the bill than under current law.

Local Effect: No impact on local pension costs because teacher pension costs are paid by the State. Local school systems could experience a minimal decrease in training and recruitment from the continued use of reemployed retirees.

Small Business Effect: None.

Analysis

Current Law: A retiree of the Teachers' Retirement System and the Teachers' Pension System who receives a service retirement allowance or vested allowance and returns to

employment with a participating employer of the State Retirement and Pension System is subject to an earnings limitation in the form of a reduction in benefits. Benefits are reduced dollar-for-dollar by the amount earnings exceed the difference between the average final salary and the basic allowance at the time of retirement.

This limitation applies if the retiree is reemployed with the same employer (the State or any of the 112 participating governmental units, including local school boards) from which the individual retired or if the retiree becomes reemployed within 12 months of receiving an early service retirement allowance. Because the State Retirement Agency (SRA) receives payroll data from participating employers at the end of the calendar year, the offset is applied against the retiree's benefit during the subsequent year. The offset cannot exceed the member's total benefit. A retired member does not accrue additional pension service credit if reemployed with a participating employer, but does receive a pension benefit simultaneously with the reemployment salary (less any reduction in the benefit for the offset). Retirees are only subject to an offset in the 10 years after the initial retirement.

Background: Chapter 518 of 1999, Chapter 245 of 2000, and Chapter 732 of 2001 created exemptions from the earnings limitation for retired teachers, principals, and supervisors of principals (respectively) who were reemployed under certain circumstances. These exceptions terminated June 30, 2004.

Each of the exemptions required that a member retire with a normal service retirement or wait 12 months if the member retires with an early service retirement. The member must have received a satisfactory or better performance review in the last assignment prior to retirement and continue to receive satisfactory or better evaluations to receive the exemption. The local boards of education must notify SRA of any retired members who qualify for the exemptions from the reemployment offset. The State Board of Education must notify the local boards of education as to which schools, counties, or subject areas met the above criteria.

Specific requirements for each exemption are as follows:

(1) for retired teachers (Chapter 578):

- certification to teach in the State;
- receipt of an appointment from the hiring board of education;
- reemployment as:

- a substitute or permanent classroom teacher or teacher mentor in a public school that has been recommended for reconstitution or has been reconstituted; or
- a substitute or permanent classroom teacher or teacher mentor in a county or subject area (statewide) in which there is a shortage of teachers, until the board finds that the shortage no longer exists.

(2) for retired principals (Chapter 245):

- employment as a principal within five years of retirement;
- based on the retiree's qualifications, has been hired as a principal;
- reemployment as a principal under the bill for no more than four years.

(3) for retired supervisors of principals (Chapter 732):

- employment as a principal not more than 10 years before retirement and in a position supervising principals in the last assignment prior to retirement;
- based on the retiree's qualifications, has been hired as a principal; and
- reemployment as a principal under the bill for no more than four years.

These exemptions were enacted to address statewide teacher and principal shortages. While the exemption for classroom teachers speaks to a targeted set of schools and jurisdictions, the Maryland State Department of Education subsequently certified all 24 jurisdictions as having teacher shortages, effectively eliminating the earnings limitation for all teachers' system retirees who returned as classroom teachers.

As shown in **Exhibit 1**, during the 2003-2004 school year, 774 teachers and principals were reemployed by local school systems under the exemptions. This is a decrease of 18.5% from the 2002-2003 school year (950 teachers and principals). Data by local jurisdiction was not available for the 2003-2004 school year. Under the exemptions, Prince George's County utilized the exception the most, reemploying 70% to 80% of the teachers and 50% to 60% of the principals employed under these provisions. In Prince George's County, 7.6% of all teachers were reemployed retirees. The exceptions were also widely used in Anne Arundel, Baltimore, and Frederick counties.

HB 1254 and HB 306 of 2004 both attempted to extend the sunset dates on the exemption from the earnings limitations.

State Fiscal Effect: Pension system liabilities could increase to reflect the increase in reemployed retirees because of the increased income that a reemployed retiree may earn before the retirement allowance is reduced.

For example, a retiree who had a final average salary of \$50,000 and who receives a pension benefit of \$20,000 may earn up to \$30,000 in reemployment (the difference between \$50,000 and \$20,000) without any offset. Any earnings over \$30,000 will trigger a dollar-for-dollar reduction in the retiree's pension benefit.

Under the bill, the same retiree may earn more before the retirement allowance is reduced. Assuming a retiree stays retired for five years, and the retiree's salary would have increased to \$58,000 (approximately 4% per year), the retiree could earn up to \$38,000 in reemployment compensation before having the retirement benefit reduced. The retiree receives the reemployment salary of \$40,000, but also receives \$18,000 of the pension benefit, and forfeits only the remaining \$2,000.

SRA indicates that retirees who are subject to the offset will often structure their new employment around the offset, *i.e.*, employees will only work enough time so that their retirement allowance is not offset at all. Therefore, the number of retirees who return to employment may increase, but likely only to the extent that these retirees are not forfeiting any pension benefit. A current reemployed retiree will likely increase their reemployment work hours up to the new limit, so that the retiree can receive more of the pension benefit without any forfeit.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Milliman USA, Maryland State Department of Education, State Retirement Agency, Department of Legislative Services

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mp/jr

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Exhibit 1

**Retired Teachers and Principals Reemployed Under
Chapter 518 of 1999, Chapter 245 of 2000, and Chapter 732 of 2001**

Local School System	2000-2001		2001-2002		2002-2003		2003-2004	
	Teachers Reemployed	Principals Reemployed						
Anne Arundel	31	0	34	0	27	0	--	--
Baltimore City	34	1	4	1	0	0	--	--
Baltimore County	81	1	48	1	141	16	--	--
Frederick	20	5	29	5	57	0	--	--
Prince George's	467	12	583	12	610	18	--	--
All Other Systems	54	1	58	1	78	3	--	--
Total	687	20	752	20	913	37	764	10

Note: The exemptions established by Chapter 518 of 1999 and Chapter 245 of 2000 terminated on June 30, 2004.

Source: Maryland State Department of Education
