

Department of Legislative Services
Maryland General Assembly
2018 Session

FISCAL AND POLICY NOTE
Enrolled - Revised

House Bill 822
Appropriations

(Delegate Krimm)

Budget and Taxation

Personnel and Pensions – Phased Retirement Plan

This bill requires the Department of Budget and Management (DBM) and the State Retirement Agency (SRA) to develop, by July 1, 2019, recommendations for a phased retirement plan for most members of the State Retirement and Pension System (SRPS). **The bill takes effect July 1, 2018, and terminates June 30, 2021.**

Fiscal Summary

State Effect: DBM and SRA can develop the recommendations and report on them with existing budgeted resources; implementation of recommendations for a phased retirement plan for State employees requires additional legislation. No effect on revenues.

Local Effect: No direct effect on local governments. Implementation of recommendations for a phased retirement plan for teachers and other school personnel who are members of the Teachers’ Retirement System or Teachers’ Pension System requires additional legislation, at which time local school boards will implement the plan in their jurisdictions.

Small Business Effect: None.

Analysis

Bill Summary: “Phased retirement plan” is defined as a plan that authorizes retirement-eligible employees to remain in State service on a part-time basis and receive regular compensation for time spent working while also collecting retirement benefits.

The recommendations for a plan developed under the bill must apply to members of all systems under SRPS except the Judges’ Retirement System and the Legislative Pension Plan; however, the recommendations cannot apply to employees of participating governmental units or participants of deferred retirement option programs (DROPs).

In developing the recommendations for a plan, DBM and SRA must consider all options to incentivize eligible individuals to stay in State service to mentor or train employees who will later fill the positions of experienced employees who are preparing for retirement. They must also work with the exclusive representatives of employees for whom the phased retirement plan is being developed.

By January 1, 2019, and May 1, 2019, DBM and SRA must submit reports to the Department of Legislative Services (DLS) and the Joint Committee on Pensions (JCP). By July 1, 2019, they must finalize their recommendations for a phased retirement plan and submit them to DLS and designated committees of the General Assembly. By December 1, 2019, DBM and SRA must make recommendations to JCP regarding suggested statutory changes to implement a phased retirement plan.

Current Law: There are no provisions in State law that allow phased retirements for SRPS members.

A DROP is available to members of the State Police Retirement System (SPRS) and the Law Enforcement Officers' Pension System (LEOPS). DROP allows retirement-eligible SPRS and LEOPS members to officially retire while continuing to work and earn salary and health benefits in their current jobs for up to either four (SPRS) or five (LEOPS) years.

During their participation in DROP, members earn the same retirement benefits that they would have received if they had fully retired, including cost-of-living adjustments. Those benefits are deposited into DROP accounts and earn 4% interest, compounded annually. During their participation in DROP, members do not earn service credit and do not make employee pension contributions. Also, their compensation earned while participating in DROP is not used in determining their average final compensation for the purpose of calculating their normal retirement benefits. There are currently 91 SPRS members and 108 LEOPS members in DROP.

In general, retirees who receive a retirement benefit from the State may be reemployed. Subject to limited exceptions, however, their benefit payment is subject to a reduction if they are rehired by the same employer for whom they worked at the time of their retirement. For members who retire directly from State service, the State is regarded as a single employer, so reemployment with any State agency activates the benefit reduction, which is calculated as follows:

$$\text{Benefit Reduction} = [\text{current annual compensation}] + \\ [\text{initial annual retirement allowance}] - \\ [\text{average final compensation at retirement}]$$

There are exceptions to the offset in statute for selected groups, including teachers who work in disadvantaged schools, nurses, and correctional officers.

Background: Although there is no single definition of phased retirement, it generally relates to the ability of a retirement-eligible employee to remain working in his or her same job on a part-time basis and receive regular compensation for the time spent working while also collecting prorated retirement benefits. In many cases, these employees may continue to earn service credit for their part-time employment even though they are also receiving prorated retirement benefits for their accumulated service.

Federal legislation was enacted authorizing the use of phased retirement for federal employees in 2012, and final regulations proposed by the Office of Personnel Management took effect in November 2014. Under the regulations, eligible employees may continue working on a part-time basis with the approval of their employing agencies. During phased retirement, federal employees receive a partial annuity and continue to accrue additional service credit toward their final annuity. Employees in the program must spend 20% of their time in mentoring activities to facilitate the transfer of their knowledge and skills to other employees.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Budget and Management; State Retirement Agency; U.S. Office of Personnel Management; Department of Legislative Services

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Analysis by: Michael C. Rubenstein

Direct Inquiries to:
(410) 946-5510
(301) 970-5510