HB 942

Department of Legislative Services

Maryland General Assembly
2020 Session

FISCAL AND POLICY NOTE
Third Reader

House Bill 942 (Delegate M. Jackson)(Chair, Joint Committee on Pensions)

Appropriations Budget and Taxation

State Retirement and Pension System - Reemployment Earnings Offset - Clarification

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This bill clarifies provisions related to the reduction in retirement benefits for retirees of the State Retirement and Pension System (SRPS) who are reemployed by the employer from whom they retired. Specifically, it clarifies provisions related to limitations on the benefit reduction to account for medical insurance premiums. **The bill takes effect July 1, 2020.**

Fiscal Summary

State Effect: None. The bill is clarifying and technical in nature and has no effect on State pension liabilities or contribution rates. No effect on revenues.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The bill pertains to provisions for retirees of the Teachers' Combined System, Employees' Combined System, State Police Retirement System, Correctional Officers' Retirement System, and the Judges' Retirement System. The bill clarifies that:

- a benefit reduction for a reemployed SRPS retiree cannot reduce the retiree's allowance to an amount that is less than the required deduction for medical insurance premiums that is normally deducted from the retiree's benefit check; and

- in cases where the deduction for medical insurance premiums is less than the benefit reduction for reemployed retirees, SRPS must collect the difference between the two amounts.

Current Law/Background: In general, retirees who receive a retirement benefit from the State may be reemployed, except that they may not be reemployed by the State or any participating SRPS employer within 45 days of retiring. In most cases, benefits paid to reemployed retirees are subject to a reduction if they are rehired by the same employer for whom they worked at the time of their retirement. The purpose of the reduction is to ensure that a retiree does not earn more in retirement than the retiree earned as an active member with the same employer. 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:

Benefit Reduction = [Current annual compensation] + [Initial annual retirement allowance] – [Average final compensation (AFC) at retirement].

As an example, if a member retires with an AFC of $60,000 and an initial benefit of $32,400, and is rehired with an annual salary of $50,000, the offset is equal to:

$50,000 + $32,400 – $60,000 = **$22,400**.

The retiree's annual benefit, therefore, becomes $10,000 ($32,400 – $22,400), which makes the retiree's total income the same as AFC at the time of retirement ($60,000).

Statute includes several broad exemptions from the offset for retirees who:

- have been retired for at least five years;
- retired with an AFC less than $25,000 and are reemployed on a permanent, temporary, or contractual basis; or
- are serving in any specified elected position.

There are also targeted exemptions for correctional officers, State police officers, nurses, and judges, as well as teachers and principals.

In general, any benefit reduction for a reemployed retiree may not reduce the allowance to an amount less than the required deduction for medical insurance premiums. The State Retirement Agency determined that the statutory language related to this limitation was not sufficiently clear and asked the Joint Committee on Pensions (JCP) to sponsor legislation to clarify the language without making any substantive changes. JCP agreed to sponsor the legislation.

Additional Information

Prior Introductions: None.

Designated Cross File: SB 809 (Senator Elfreth)(Chair, Joint Committee on Pensions) - Budget and Taxation.

Information Source(s): State Retirement Agency; Department of Legislative Services

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