Department of Legislative Services
Maryland General Assembly

FISCAL NOTE

House Bill 1300 (Delegate Hutchins, *et al.*)
Appropriations

Teachers' Systems - Employment of Retirees

This bill provides an exception from the requirement that Teachers' Retirement System (TRS) retirees are subject to an earnings limitation if employed, or reemployed, by an employer that participates in the TRS and Teachers' Pension System (TPS). It exempts retirees of the TRS if they have been retired for more than one year and become reemployed in a position that is not the same position held at the time of retirement.

Fiscal Summary

State Effect: Indeterminate increase in State employer pension contributions if TRS members retire earlier than anticipated because of the absence of reemployment earnings limitations.

Local Effect: None.

Small Business Effect: None.

Fiscal Analysis

Background: Currently, retirees of the TRS, Employees' Retirement System (ERS), TPS, and Employees' Pension System (EPS) who receive a service retirement allowance or vested allowance, may return to temporary, contractual, or permanent employment with a participating employer. The retiree must advise the Board of Trustees of the Maryland State Retirement and Pension System (MSRPS) in writing of any employment with a participating employer and the amount of annual compensation earned with the participating employer. The board reduces the retirees' allowance dollar for dollar by the amount the earnings exceed the difference between the retirees' basic allowance at time of retirement and the retirees' average final salary.

The board, however, reduces the retirement allowance based on where the retiree is reemployed and not on the position held by the retiree. Annually, all participating employers are required to submit to the retirement agency all wages paid for the prior year. The agency matches the payroll information against the retiree accounts. If there are matches, then the agency researches the payments that are subject to the earnings limitation and offsets future pension benefits for those earnings that exceed the limitation.

As an example, a member of the TRS retires with 30 years of service effective July 1, 1998 and returns to employment as a substitute teacher in the Baltimore County Public Schools. The teacher's annual compensation for calendar 1999 is $15,000. The member's average final salary at time of retirement was $50,000 and the basic annual allowance $27,272. The earnings limitation, the difference between the average final salary and the annual basic allowance, is $22,728. Since this retiree's earnings ($15,000) is less than the earnings limitation, the retiree's retirement allowance is not reduced.

If the same retiree earns $25,000 in calendar 2000 as a teacher, the retiree has exceeded the earnings limitation by $2,272. The retirement agency must reduce future payments to this retiree by $2,272.

There are several current exceptions to the earnings limitation. The limitation does not apply to the following:

1. a retiree of the Teachers' and Employees' Retirement System who is retired for more than 10 years;
2. a retiree whose average final compensation was less than $10,000 and who is reemployed on a temporary or contractual basis;
3. a retiree who is serving in an elected position as an official of a participating governmental unit or as a constitutional officer for a county that is a participating governmental unit;
4. a retiree of the Teachers' Retirement System who retired and was reemployed by a participating employer other than the State on or before September 30, 1994 and whose employment compensation does not derive, in whole or in part, from State funds; and
5. any earnings from a non-participating employer.

State Expenditures: Under this proposal the earnings limit would not apply to a retiree of the TRS who has been retired for more than one year and is employed in a position that is not the same position held at time of retirement.

The retirement agency advises that because it does not maintain in its computer database the position titles held both during membership and after retirement, it would be impossible for the agency to determine if retirees were employed in the same position with the same employer or a different employer. Such personnel information is not retrievable from a member's or retiree's file unless done manually.

It cannot be reliably estimated how many retired TRS members would seek employment if the current limitations are removed after one year of retirement. The State's actuary advises that if the absence of a reemployment earnings limitation encourages TRS members to retire earlier than they otherwise would, State retirement liabilities will increase. The amount of such increase cannot be reliably estimated.

Information Source(s): State Retirement Agency; Milliman & Robertson, Inc.; Department of Legislative Services

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