Department of Legislative Services

Maryland General Assembly
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FISCAL NOTE
Revised

Senate Bill 15 (Senator Green, *et al.*)
Budget and Taxation

Teachers' Retirement and Pension Systems - Reemployment of Retired Teachers

This pension bill exempts retirees of the Teachers' Retirement System (TRS) and Teachers' Pension System (TPS) who meet certain criteria from the reemployment earnings limitation. The bill takes effect July 1, 1999 and sunsets on June 30, 2004.

Fiscal Summary

State Effect: Indeterminate but assumed minimal increase in State employer pension contributions if TRS and TPS members retire earlier than anticipated because of the absence of reemployment earnings limitations. (For illustrative purposes, annual retirement expenditures could increase by $1.3 million for each month that the average age of retirement decreases.)

Local Effect: Local school board expenditures could decrease if the reemployment limit exceptions expand the pool of available teachers for reconstituted schools and for counties and subject areas with teacher shortages.

Small Business Effect: None.

Fiscal Analysis

Background: Currently, retirees of the TRS and TPS (as well as the Employees' Retirement System and Employees' Pension System) 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). With certain exceptions, however, current law requires a reduction in the retirees' 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 retirees' average final salary. 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, 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 $25,000. 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. The retiree has exceeded the earnings limitation by $2,272. The retirement agency must reduce future payments to this retiree by $2,272.

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.

Bill Summary: Under the bill, a TRS or TPS retiree is not subject to the earnings limitation if the retiree meets the following criteria:

- is certified to teach in the State;
- has verification of satisfactory or better performance in the last assignment prior to retirement;
- has received an appointment from the hiring board of education;
- retired with a normal service retirement <u>or</u> retired with an early service retirement and has been retired for at least 12 months; and
- is reemployed 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.

The teacher must continue to receive satisfactory or better evaluations to receive the exemption. The exception for a reconstituted school ends when the school meets the standards for school performance set by the State Board of Education. The local boards of education must notify the State Retirement Agency of any retired teachers who qualify for the exemption 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.

The bill takes effect July 1, 1999 and sunsets on June 30, 2004. The State Board of Education is required to submit a report to the Governor and the General Assembly on or before December 31, 2001 and again on or before December 31, 2003 on the impact of the bill on teacher recruitment and teacher shortages at Maryland's public schools.

State Expenditures: Currently, the reemployment earnings limitation serves to discourage retired members from returning to employment with a participating employer. The limitation also serves, however, to discourage active members from retiring and shortly thereafter returning to work with any participating employer.

There are 34,340 retired members of the teachers' systems. In addition, there are approximately 7,600 active teachers who -- based either on age or years of service -- are eligible for immediate retirement. Under the bill, these teachers could retire and go back to work immediately as substitute teachers in the eligible schools and areas, if they meet the bill's criteria.

In calendar 1997 (the last period in which data is available), the SRPS offset the retirement benefits of 25 TPS and TRS members with a total offset amount of $83,309. Even if all the 25 members were no longer subject to the offset, the increase in pension benefit payments (because fewer earnings offsets would be enforced) and 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 TRS and TPS members to retire earlier than they otherwise would, State retirement liabilities will increase. It cannot be reliably estimated how many of these retired or soon-to-retire TRS and TPS members 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 teachers causes the average age of retirement of teachers to decrease by one year, the additional normal cost and unfunded liabilities to the system would increase employer contributions by approximately $16 million per year. This is an outside cost estimate; it is highly unlikely that the reemployment earnings exemption would drive the average retirement age down that far because of the limitations on eligibility. Any smaller reduction in the retirement age, however, would result in a proportionate increase in State costs.

Local Expenditures: The Maryland State Department of Education (MSDE) reports that there were 88 schools eligible for reconstitution in 1998: 77 schools in Baltimore City; 9 schools in Prince George's County; 1 in Anne Arundel County; and 1 in Somerset County.

MSDE reports that Baltimore City and Prince George's County qualify as local school systems with geographic shortages of teachers. MSDE also reports subject area shortages this year in the areas of computer science, English as a second language, science, and special education. These areas of shortage may change and expand in the next few years.

Relaxation of the reemployment earnings limitation may encourage retired teachers to return to work as substitute teachers or permanent teachers (after the appropriate retirement period). To the extent that such retired teachers return, and hence expand the supply of available teachers, local school board expenditures associated with these shortages may be reduced.

For those jurisdictions in which teachers retire earlier than they otherwise would (in order to seek reemployment in an eligible jurisdiction), the jurisdiction from which the member retired would experience a short-term cost savings if the retiree was replaced by a new teacher at the starting salary. Such effect is likely to be minimal.

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

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