Department of Legislative Services

Maryland General Assembly
1999 Session

FISCAL NOTE

House Bill 87 (Delegate Hutchins, *et al.*)
Appropriations

Teachers' Systems - Employment of Retirees

This pension bill enables a retired member of the Teachers' Retirement System (TRS) or Teachers' Pension System (TPS) to accept employment and not be subject to the reemployment earnings limitation so long as the retiree has been receiving the retirement allowance for more than one year and is reemployed in a position that is not the same position held at separation from employment. The bill takes effect July 1, 1999.

Fiscal Summary

State Effect: Indeterminate increase in State employer pension contributions if TRS and TPS members retire earlier than anticipated because of the absence of reemployment earnings limitations. (Annual retirement expenditures could increase by $1.3 million for each month of decrease in the average age of retirement of teachers.)

Local Effect: Personnel expenditures for those school boards with a shortage of certified teachers could decrease if the reemployment limit exemption expands the pool of available certified teachers.

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.

State Expenditures: Currently, the reemployment earnings limitation serves to discourage already-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 so long as they had been retired for more than one year and were not reemployed in the same position held at separation from employment.

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 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. Any smaller reduction in the retirement age, however, would result in a proportionate increase in State costs.

Local Expenditures: Relaxation of the reemployment earnings limitation may encourage retired teachers to return to work. To the extent that such retired teachers return, and hence expand the supply of available certified 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 another 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. The teacher, however, could retire and, after one year, return to work for the same employer. In that case, any cost savings to the employer would depend on the compensation at reemployment.

Additional Comments: The bill does not restrict reemployment to teaching. Retired TPS and TRS members who meet the criteria could be reemployed in any occupation with the State or other participating employer.

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

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