SB 220

Department of Legislative Services

Maryland General Assembly
2000 Session

FISCAL NOTE
Revised

Senate Bill 220 (Senator Green, *et al.*)
Budget and Taxation

Teachers' Retirement and Pension Systems - Reemployment of Retired Personnel

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This pension bill exempts retirees of the Teachers' Retirement System (TRS) and Teachers' Pension System (TPS) from the reemployment earnings limitation if they were school principals within five years of retirement and are reemployed as principals, under certain conditions.

The bill takes effect July 1, 2000 and sunsets on June 30, 2004.

Fiscal Summary

State Effect: Potential minimal increase in State employer pension contributions if certain 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 $1.7 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 principals.

Small Business Effect: None.

Analysis

Bill Summary: The bill exempts from the reemployment earnings limitation a retiree of the Teachers' Retirement or Pension Systems who:

- was employed as a principal within five years of retirement;
- has verification of better than satisfactory performance in the last assignment prior to retirement;
- based on the retiree's qualifications, has been hired as a principal;
- retired with a normal service retirement allowance, or retired with an early service retirement allowance and has been retired for at least 12 months;
- receives verification of better than satisfactory performance each year the retiree is employed as a principal under this exemption; and
- is not reemployed as a principal under the bill for more than four years.

The county boards of education must notify the State Retirement Agency of any personnel who qualify under this exemption. The State Board of Education must report to the General Assembly on the impact of the bill on principal shortages.

Current Law: 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). Current law, however, 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, with certain exceptions. 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, assume that a member of the TPS retires with 30 years of service effective July 1, 1998. The member's average final salary at time of retirement was $40,000 and the basic annual allowance is $15,000. The member then returns to employment. The reemployed member's annual compensation for calendar 2000 is $30,000. The earnings limitation, the difference between the average final salary and the annual basic allowance, is $25,000. The retiree has exceeded the earnings limitation by $5,000. The retirement agency must reduce future payments to this retiree by $5,000.

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.

Background: Chapter 518 of 1999 (SB 15) exempts certain retirees of the Teachers' Retirement System (TRS) and Teachers' Pension System (TPS) who meet certain criteria from the reemployment earnings limitation.

Under that law, 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.

That law took 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.

The State Board of Education recently certified that all 24 jurisdictions are experiencing teacher shortages. Thus, a retired teacher may currently return to employment in any jurisdiction and be exempt from the reemployment penalty if the teacher meets the other criteria described above (certification, adequacy of performance, appointment, and retirement status).

As of January 28, 2000, the local boards had reported 246 retired teachers to the State Retirement Agency for exemption from the reemployment earnings limitation, from the following jurisdictions:

Number of Retired Teachers' System Members Rehired under Chapter 518 of 1999 as of January 28, 2000	
Board of Education	**# Reemployed**
Prince George's	242
Washington	2
Carroll	1
Howard	1
TOTAL	**246**

The final number of reemployed teachers is likely to be considerably higher because only a small number of school boards have reported their rehires so far. A final count of reemployed teachers will not be available until April 2000.

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 36,057 retired members of the teachers' systems. It cannot be reliably determined at this time how many of these retirees were principals at the time of retirement. It is assumed, however, that the majority of retirees were classroom teachers at retirement.

MSDE advises that there are currently about 3,400 principals, vice-principals, and supervisors among the boards of education. It is not known what portion of these are principals, nor is it known what portion of principals are currently eligible for retirement.

In calendar 1998 (the last period in which data is available), the SRPS offset the retirement benefits of 22 TPS and TRS members with a total offset amount of $49,879. It is not known whether any of the retirees were principals; in any case, eliminating the offset would only minimally reduce revenues.

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' systems members causes the average age of retirement of a member to decrease by one year, the additional normal cost and unfunded liabilities to the system would increase employer contributions by approximately $20 million per year. This is an outside cost estimate; it is highly unlikely that the reemployment earnings exemption under this bill would drive the average retirement age down that far because of the small numbers of personnel covered by the bill. Any smaller reduction in the retirement age, however, would result in a proportionate increase in State costs.

The Retirement Agency may experience a minor increase in administrative costs in tracking the additional retirees reemployed under this proposal, and in verifying that these retirees are not subject to the earnings limitation for the academic year certified by the local board of education.

Local Expenditures: Relaxation of the reemployment earnings limitation may encourage former principals to return to work (after the appropriate retirement period). To the extent that such retired principals return, and hence expand the available supply, local school board expenditures associated with these shortages may be reduced.

For those jurisdictions in which members 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 employee at the starting salary. Such effect is likely to be minimal.

Additional Information

Prior Introductions: See discussion above.

Cross File: None.

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

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