

Department of Legislative Services
Maryland General Assembly
2000 Session

FISCAL NOTE

House Bill 847 (Delegate Goldwater. *et al.*)

Appropriations

**State Retirement and Pensions - Reinstatement of Suspended Allowance on
Recurrence of Disability**

This pension bill allows a disability retiree whose allowance has been suspended to have the allowance reinstated if the disability recurs and the retiree terminates the employment that was the basis for the suspension.

This bill takes effect July 1, 2000.

Fiscal Summary

State Effect: Pension contributions would increase as a result of additional disability benefit payments. The amount of such increase cannot be precisely estimated at this time and would depend on the number of disability retirees who have their benefits suspended upon re-employment but then suffer a recurrence of their disability.

Local Effect: Increase in pension contributions for local governmental units that participate in the State Retirement and Pension System.

Small Business Effect: None.

Analysis

Current Law: If the medical board of the State Retirement and Pension System (SRPS) finds after a medical examination that a disability retiree who is under normal retirement age is no longer mentally or physically incapacitated for the further performance of the normal duties of the retiree's position at the time of retirement, the board of trustees of the SRPS may, after giving notice and an opportunity for a hearing, suspend the retiree's allowance.

In addition, the SRPS may not suspend a disability retiree's benefit unless:

- the retiree was employed with a participating employer at an annual salary equal to or greater than the average final compensation at retirement or in a position that is similar to the position held at retirement;
- the retiree is employed (with any employer) in a position that is similar to the position held at retirement;
- the retiree is employed (with any employer) in a position with compensation at least equal to or greater than the retiree's average final compensation at retirement; or
- the retiree refuses an offer of employment from the retiree's employer at retirement in a comparable position with salary at least equal to the average final compensation at retirement.

If the retiree's disability benefit is suspended, the member would become eligible to receive a normal or early retirement benefit, depending on the retiree's age and years of service.

If employed or re-employed by a participating employer in a permanent, contractual, or temporary position, ordinary disability retirees do not earn any additional pension benefits. These disability retirees are also subject to a re-employment earnings offset, regardless of where they are re-employed.

State Expenditures: This proposal allows a retiree whose benefit is suspended as described above to have the disability allowance reinstated if the disability recurs and the retiree terminates the employment that was the basis for suspension.

The retirement agency is not aware of any disabled member whose benefit is suspended at this time. The agency is currently offsetting \$139,371 from the disability benefits of 51 retirees who receive an ordinary disability benefit. Of these, three were reviewed by the medical board this year to determine if any were no longer disabled, based on current income or position during the 1998 calendar year. The medical board, based on current medical information, concluded that the three remain disabled.

The agency advises that the medical board does not suspend a disability benefit if the medical board believes the condition could or would reoccur. It is therefore unlikely that the medical board would be in a position in which it would be required to reinstate a disability benefit under this bill.

If, however, the SRPS were to suspend a disability benefit and then be required to reinstate that benefit, there would be an actuarial cost to the SRPS. The amount of such cost would

depend on the difference between the retiree's disability benefit (adjusted for period of employment when the benefit was suspended) and the normal service retirement benefit the member would receive under current law. This difference can vary significantly depending on the member's years of service and the system from which the member retired.

The bill has not been presented to the State's actuary for a formal actuarial valuation. For illustrative purposes, however, the State's actuary advises that one ordinary disability retiree of the Teachers' Retirement System who had 25 years of service would receive an additional approximately \$213,000 in benefits, expressed as the net present value of additional liabilities, if the member were to have the disability benefit reinstated upon recurrence of the disability rather than receiving a normal service retirement. These additional liabilities would be amortized over 19 years (from fiscal 2002 through fiscal 2020) and result in additional State pension contributions of \$14,500 in fiscal 2002, increasing 5% per year thereafter based on actuarial assumptions.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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