HB 708

Department of Legislative Services

Maryland General Assembly
2001 Session

FISCAL NOTE

House Bill 708 (Delegate Eckardt, *et al.*)
Appropriations

Employees' Retirement and Pension Systems - Reemployment of Retirees - Nurses

This pension bill exempts from the reemployment earnings limitation a retiree of the Employees' Retirement System (ERS) or Employees' Pension System (EPS) who is reemployed as a registered nurse, licensed practical nurse, or a certified nursing assistant in a State facility in which the Department of Health and Mental Hygiene (DHMH) finds that there is a shortage of such employees. The exemption continues so long as DHMH finds there is such a shortage. DHMH must notify the State Retirement Agency of which facilities qualify for the exemption. These retirees are also exempted from the 2% overall limit on reemployment of State employees who accepted the early retirement incentive under Chapter 353 (SB 1) of 1996 or Chapter 736 of 1997, which provided a similar incentive to certain employees laid off from the Great Oaks Center.

The bill takes effect July 1, 2001 and sunsets on June 30, 2004.

Fiscal Summary

State Effect: Potential increase in State employer pension contributions if members retire earlier than anticipated because of the absence of the reemployment earnings limitation. (*For illustrative purposes only,* annual retirement expenditures could increase by approximately $1.25 million for each month that the average age of retirement decreases.) Any such increase could be partially offset by reduced recruiting and training costs due to utilization of reemployed retirees.

Local Effect: Potential minimal decrease in recruiting and training costs at local health departments.

Small Business Effect: None.

Analysis

Current Law: Retirees of the EPS and ERS 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 a retiree's 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 retiree's 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 an EPS member 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: Several bills have been introduced in recent sessions to exempt certain classes of retirees from the earnings limitation. Some of these proposals have been enacted, while others have not. Two major exemptions, Chapter 518 of 1999 and Chapter 245 of 2000, for classroom teachers and principals respectively, created exemptions from the earnings limitation under certain circumstances in order to address statewide teacher and principal shortages. This exemption from the limitation sunsets on June 30, 2004. The exemption for principals also expires on June 30, 2004. The State Department of Education advises that approximately 500 teachers are currently utilizing the exemption in calendar 2000.

Other States

In 1998 the State Retirement Agency surveyed the other 49 state public employee pension systems on the reemployment issue. Almost all the responding systems place some type of restriction on reemployment with a participating employee. Over half the systems (54%) suspend the retirement benefit entirely during reemployment. A smaller number of systems (24%) cancel the pension benefit and restore membership. The smallest group of respondents (18%, including Maryland) offset the pension benefit instead of suspending the entire pension, based on an earnings limitation. Given recent nationwide labor shortages, however, it would not be surprising if other states have altered their reemployment restrictions since the survey.

No previous exemption from the earnings limitation has also exempted the retiree from the overall limits set on reemployment under the early retirement incentive laws.

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 approximately 1,500 positions within DHMH that would be subject to the bill. There are approximately 31,000 retired members of the employees' systems. It cannot be reliably determined at this time how many of these retirees would meet the requirements of this bill and become exempt from the earnings limitation. In addition, there are approximately 1,800 active members of the employees' systems who -- based solely on years of service -- are eligible for immediate full retirement. There are an indeterminate number of additional members eligible based on age, or eligible for early retirement based on age or years of service.

For wages earned in calendar 1998, the last period in which data is available, the SRPS is currently offsetting the retirement benefits of 66 members of the employees' systems with a total offset amount of $219,800. Even if all 66 members were eligible under the bill and no longer subject to the offset, the increase in pension benefit payments (because fewer earnings offsets would be enforced) and the 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 members to retire earlier than they otherwise would, SRPS actuarial liabilities will increase. It cannot be reliably estimated how many of these retired or soon-to-retire 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 employees' 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 $15 million per year.

This is an outside cost estimate; 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.

Offsetting the potential increase in actuarial costs could be reduced recruiting and training costs due to utilization of reemployed retirees. Of the 1,500 positions covered, approximately 15% are vacant. Current or soon-to-be retirees may be a source of such employment, potentially at a cost lower than the cost of training and recruiting a new employee.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Health and Mental Hygiene; State Retirement Agency; Milliman & Robertson, Inc; Department of Legislative Services

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