SB 88

Department of Legislative Services

Maryland General Assembly
2001 Session

FISCAL NOTE
Revised

Senate Bill 88 (Senator Green)
Budget and Taxation Appropriations

Teachers' Retirement and Pension Systems - Reemployment of Retired Speech-Language Pathologists and Audiologists

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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 are reemployed as speech-language pathologists or audiologists.

The bill takes effect July 1, 2001, 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.

Local Effect: Local school board expenditures could decrease if the reemployment limit exceptions expand the pool of available speech-language pathologists and audiologists.

Small Business Effect: None.

Analysis

Bill Summary: The bill requires that the reemployed retiree: (1) has verification of satisfactory or better performance in the last assignment prior to retirement; (2) based on the retiree's qualifications, has been hired as a speech-language pathologist or audiologist; (3) retired with a normal service retirement allowance, or retired with an early service retirement allowance and has been retired for at least 12 months; and (4) receives verification of satisfactory or better performance each year the retiree is employed as specialized personnel under this exemption.

The county boards of education must notify the State Retirement Agency of any personnel who qualify under this exemption.

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.

As an example, assume that a member of the TPS retires with 30 years of service effective July 1, 2000. 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 2001 is $32,000. 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 $7,000. The retirement agency must reduce future payments to this retiree by $7,000.

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 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. While the exemption for classroom teachers speaks to a targeted set of schools and jurisdictions, the Maryland State Department of Education subsequently certified all 24 jurisdictions as having teacher shortages, effectively eliminating the earnings limitation for all teachers' system retirees who return as classroom teachers. This exemption from the limitation, however, expires when the bill sunsets on June 30, 2004. The exemption for principals also expires on June 30, 2004.

Chapter 518 of 1999 went into effect July 1, 1999, and several jurisdictions (particularly Prince George's County) took immediate advantage of the bill to recruit retired teachers to address their teacher shortage. The State Retirement Agency advises that 15 teachers returned to full-time employment under Chapter 518 and received an exemption from the earnings limitation during calendar 1999. The State Department of Education advises that approximately 500 teachers (including those above) are currently utilizing the exemption in calendar 2000.

State Expenditures: For wages earned in calendar 1998 (the last period in which data is available), the SRPS is currently offsetting the retirement benefits of 52 TPS and TRS members with a total offset amount of $97,908. Even if all the 52 members were 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 TRS and TPS members to retire earlier than they otherwise would, State retirement liabilities will increase. There are 38,145 retired members of the teachers' systems. In addition, there are approximately 7,600 active members of the teachers' systems who -- based either on age or years of service -- are eligible for immediate retirement. Of this membership, it is not known what percentage are eligible for reemployment under the bill, but the number of retirees who have the appropriate license or professional certification for reemployment under the bill is assumed to be relatively small.

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 number 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 these specialized personnel to return to work (after the appropriate retirement period). To the extent that such retired personnel return, and hence expand the available supply, local school board expenditures associated with these shortages may be reduced.

Additional Information

Prior Introductions: SB 220 of 2000, as introduced, would have provided the earnings limitation exemption to these employees and others. The bill was amended to limit its scope to school principals and was enacted as Chapter 245 of 2000, as discussed above.

Cross File: None.

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

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Analysis by: Matthew D. Riven

Direct Inquires to:
John Rixey, Coordinating Analyst
(410) 946-5510
(301) 970-5510