Department of Legislative Services
Maryland General Assembly
2002 Session

FISCAL NOTE

House Bill 370 (Delegate W. Baker, *et al*.)
Appropriations

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

This pension bill exempts normal service retirees of the Employees' Retirement System (ERS), Employees' Pension System (EPS), Teachers' Retirement System (TRS), and Teachers' Pension System (TPS) from the reemployment earnings limitation.

The bill takes effect July 1, 2002.

Fiscal Summary

State Effect: State pension contributions could increase if members retire earlier than anticipated because of the absence of the reemployment earnings limitation.

Local Effect: Employer pension contributions for local governments that participate in the State Retirement and Pension System of Maryland (SRPS) could increase if members retire earlier than anticipated because of the absence of the reemployment earnings limitation.

Small Business Effect: None.

Analysis

Current Law: Retirees of the employees', teachers', and correctional officers' systems of SRPS are exempt from the reemployment earnings limitation if they are reemployed by an employer other than the one from which they retired. The State is treated as a single employer. Those retirees who become reeemployed with the same employer from which they retired are subject to the earnings limitation; however, State law provides for a variety of exemptions from the earnings limitation for certain retirees, including classroom teachers and principals, even if they are reemployed by the same employer.

For those members subject to the earnings limitation, 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.

As an example, assume that an Employees' Pension System member retires with 30 years of service effective July 1, 2001. 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 2002 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 733 of 2001

During the 2000 interim, the Joint Committee on Pensions studied the issue of reemployment and voted to introduce comprehensive reform of the reemployment rules. The joint committee's bill, Senate Bill 221 of 2001, was amended somewhat and enacted as Chapter 733 of 2001. Chapter 733 exempts retirees of the employees', teachers', and correctional officers' systems of SRPS from the reemployment earnings limitation if they are reemployed by a participating employer other than the one from which they retired. The State is treated as a single employer. The bill also made certain other changes to the pension reemployment rules.

Other States

In 1998 the State Retirement Agency surveyed the other 49 state public employee pension systems on the reemployment issue. Almost all of the responding systems place some type of restriction on reemployment with a participating employee or prohibit reemployment after retirement altogether. Many systems suspended the retirement benefit entirely during reemployment. A smaller number of systems cancel the pension benefit and restore membership. The smallest group of respondents, including Maryland, offset the pension benefit (instead of suspending the entire pension) based on an earnings limitation.

State Expenditures: For wages earned in calendar 2000, SRPS is currently offsetting the retirement benefits of 162 teachers' and employees' systems members with a total offset amount of approximately $579,000. Even if all these members were no longer subject to the offset, the reduction in offsets and corresponding increase in pension benefit payments 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 members to retire earlier than they otherwise would, SRPS actuarial liabilities will increase. There are approximately 80,000 retirees of the four systems. In addition, there are approximately 12,000 active members of these 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.) It cannot be reliably estimated how many of these retired or soon-to-retire members would seek reemployment if the current limitations were removed under the above circumstances.

For illustrative purposes, the State's actuary informally estimates that if earlier retirement patterns among members of the four systems 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 $35 million per year. This is an outside cost estimate that assumes significant reemployment of retirees; any smaller reduction in the retirement age, however, would result in a proportionate increase in employer costs. Any such increase could be partially offset by reduced recruiting and training costs due to utilization of reemployed retirees.

Additional Information

Prior Introductions: None.

Cross File: None.

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