HB 622

Department of Legislative Services
Maryland General Assembly
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FISCAL NOTE

House Bill 622 (Delegate Zirkin, *et al.*)
Appropriations Budget and Taxation

Teachers' Retirement and Pension Systems - Reemployment of Retired Personnel - Reading Specialists

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This pension bill exempts from the reemployment earnings limitation retirees of the Teachers' Retirement System (TRS) or Teachers' Pension System (TPS) who are reemployed as reading specialists.

The bill takes effect July 1, 2002 and terminates June 30, 2004.

Fiscal Summary

State Effect: Potential increase in State pension contributions for teachers (general fund) if TRS and TPS members retire earlier than anticipated because of the absence of reemployment earnings limitations.

Local Effect: For local boards of education, there is no impact on pension costs because the State pays teacher pensions. The boards could experience a minimal reduction in recruiting and salary costs.

Small Business Effect: None.

Analysis

Bill Summary: This pension bill exempts from the reemployment earnings limitation a retiree of the Teachers' Retirement System (TRS) or Teachers' Pension System (TPS) who:

- was employed as reading specialist within five years of retirement;

- has verification of better than satisfactory performance as a reading specialist;
- based on the retiree's qualifications, has been reemployed as a reading specialist;
- 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 reemployed as a reading specialist under this exemption; and
- is not reemployed as a reading specialist under the bill for more than four years.

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, generally 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 discussed below.

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.

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 (MSDE) 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 law sunsets on June 30, 2004. The exemption for principals also expires on June 30, 2004.

Chapter 732 of 2001 expanded the exemption from the reemployment earnings limitation to include a retiree of the TRS and TPS who: (1) was employed as a principal not more than ten years before retirement; (2) was employed in a position supervising principals in the retiree's last assignment prior to retirement; (3) is reemployed as a principal; and (4) meets certain performance and other criteria. That act also terminates June 30, 2004.

Background: Several jurisdictions (particularly Prince George's County) have taken advantage of the bills to recruit retired teachers and principals. The Retirement Agency advises that 691 retired teachers were reemployed in fiscal 2001 under Chapter 518, and 18 retired principals were reemployed under Chapter 245.

State Expenditures: For wages earned in calendar 2000 (the last period in which data is available), the SRPS is currently offsetting the retirement benefits of 64 TPS and TRS members with a total offset amount of $256,515. Even if all these 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 approximately 40,000 retired members of the teachers' systems. In addition, there are approximately 7,000 active members of the teachers' systems who, based solely on age, are eligible for immediate retirement. It cannot be reliably estimated how many of these retired or soon-to-retire TRS and TPS members meet the bill's requirements and would seek reemployment as a reading specialist 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 smaller 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.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): State Retirement Agency, Milliman USA, Department of Legislative Services

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