HB 44

Department of Legislative Services

Maryland General Assembly
2002 Session

FISCAL NOTE

House Bill 44 (Delegate K. Kelly, *et al*.)
Appropriations

Employees' Retirement and Pension Systems - Participating Employers - Reemployment of Retirees

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This pension bill exempts retirees of the State Retirement and Pension System (SRPS) from the reemployment earnings limitation if they are reemployed by the same participating employer (other than the State) from which they retired.

The bill takes effect July 1, 2002.

Fiscal Summary

State Effect: None. The bill does not directly affect State governmental operations or finances.

Local Effect: Employer pension contributions for local governments that participate in the SRPS, could increase if employees' system members retire earlier than anticipated because of the absence of the reemployment earnings limitation. Any such increase could be partially offset by reduced recruiting and training costs due to utilization of reemployed retirees.

Small Business Effect: None.

Analysis

Current Law: Retirees of the employees', teachers', and correctional officers' systems of the 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 the 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: The Retirement Agency advises that it 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. Legislative Services advises that it is more likely that agency administrative expenditures will decrease because fewer retirees would be subject to the offset.

Local Expenditures: For wages earned in calendar 2000, the SRPS is currently offsetting the retirement benefits of 98 employees' system members with a total offset amount of approximately $300,000. Assuming that 20% of these offsets reflect retirees of a participating employer who is reemployed by the same employer, 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 10,000 retirees of the employees' systems who retired from participating employers. In addition, there are approximately 1,000 active employees' system members employed by participating employers who -- based solely on age -- are eligible for immediate full retirement. (There are an indeterminate number of additional members eligible based on service, or eligible for early retirement based on age or years of service.) It cannot be reliably estimated how many of these retired or soon-to-retire members would seek reemployment with the same employer 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 (including State employees) 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. Assuming participating employers represent approximately 20% of this group, employer costs could increase by $3 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.

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

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