SB 92

Department of Legislative Services

Maryland General Assembly
2003 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 92 (Senator Kasemeyer)
(Chairman, Joint Committee on Pensions)

Budget and Taxation Appropriations

Local Fire and Police System - Reemployment of Retirees

This pension bill relaxes the reemployment rules for retired members of the Local Fire and Police System (LFPS), exempting them from the reemployment earnings limitation if they are reemployed with a participating employer of the State Retirement and Pension System (SRPS) other than the employer from which they retired.

The bill takes effect July 1, 2003.

Fiscal Summary

State Effect: None. The State Retirement Agency can implement this bill with existing budgeted resources.

Local Effect: Employer pension contributions for local governments that participate in SRPS could increase minimally if LFPS members retire earlier than anticipated because of the relaxation 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 LFPS are subject to a reemployment earnings limitation if they become reemployed with any employer, including the State, that participates in

SRPS. 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 exceeds the difference between the retirees' basic allowance at time of retirement and the retirees' average final salary. For example, assume that an LFPS member retires with 25 years of service effective July 1, 2002. The member's average final salary at time of retirement was $40,000, and the basic annual allowance is $22,000. The member then returns to employment with an annual compensation for calendar 2003 of $32,000. The earnings limitation – the difference between the average final salary and the annual basic allowance – is $18,000. The retiree has exceeded the earnings limitation by $14,000, and the retirement agency must reduce future payments to this retiree by this amount.

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 (SB 221) of 2001 relaxed and streamlined the reemployment earnings limitations for the employees' systems, the teachers' systems, and the Correctional Officers' Retirement System. The board of trustees believes that LFPS was inadvertently omitted. This bill would bring the reemployment provisions for this system in line with the other systems amended by Chapter 733 of 2001.

Local Expenditures: Under the bill, retirees of LFPS would be subject to the earnings limitation only if reemployed by the same employer from which they retired. There are currently three employers participating in LFPS: the City of Cumberland, Town of Hurlock, and City of Salisbury, with a total of 140 active employees. There are currently 26 LFPS retirees and 36 former LFPS members with vested benefits.

The State Retirement Agency advises that it is currently subjecting no LFPS retirees to the reemployment earnings offset. Thus, there would be no immediate reduction in offsets and corresponding increase in pension benefit payments if the exemption were expanded under this proposal. More significantly, however, the State's actuary advises that if the relaxation of the reemployment provisions encourages members to retire earlier than they otherwise would, SRPS actuarial liabilities for the "municipal pool" of participating employers will increase. The State Retirement Agency is aware of only one LFPS retiree who would return to employment (with an employer other than the one from which he retired) if the earnings limitation were relaxed. Given the small number of current and future retirees affected, this increase in actuarial liabilities is assumed to be minimal.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - January 23, 2003
ncs/jr Revised - Clarification - April 30, 2003

Analysis by: Matthew D. Riven

Direct Inquiries to:
(410) 946-5510
(301) 970-5510