HB 1087

Department of Legislative Services

Maryland General Assembly
2003 Session

FISCAL AND POLICY NOTE

House Bill 1087 (Delegates Proctor and Howard)
Appropriations

Teachers' Retirement and Pension Systems - Reemployment of Retired Teachers - Sunset Extension

This pension bill extends the sunset for three provisions of State law that exempt certain retired teachers from the reemployment earnings limitation.

The bill takes effect July 1, 2003.

Fiscal Summary

State Effect: State pension liabilities could increase by $3.8 million versus current law, based on assumed teacher retirement patterns. These additional liabilities would be reflected in increased State pension contributions for teachers (general funds) of $332,300 beginning in FY 2005 and increasing in the out-years based on actuarial assumptions.

(in dollars)	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Revenues	$0	$0	$0	$0	$0
GF Expenditure	0	332,300	347,600	367,900	388,600
Net Effect	$0	($332,300)	($347,600)	($367,900)	($388,600)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: No impact on local pension costs, because teacher pension costs are paid by the State. Local boards of education may experience a minimal decrease in recruitment and training costs from the continued use of reemployed retirees.

Small Business Effect: None.

Analysis

Bill Summary: This bill extends the termination date for Chapter 518 of 1999, Chapter 245 of 2000, and Chapter 732 of 2001.

Current Law: Retirees of the Teachers' Retirement System (TRS) and the Teachers' Pension System (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.

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 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.

All three chapter laws sunset on 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 in fiscal 2002, 772 retirees were reemployed under the three bills, as follows: Chapter 518 (752), Chapter 245 (2), and Chapter 732 (none).

State Expenditures: 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, then State retirement liabilities will increase. The State's actuary currently makes the following assumptions about teacher retirement patterns:

- Teachers' Retirement System: Of those eligible for normal service retirement, 50% retire in the first year of eligibility, 20% in the second year, 20% in the third year, and 5% in the fourth year; and
- Teachers' Pension System: Of those eligible for normal service retirement, 25% retire in the first year of eligibility, and 25% retire in each of the following three years.

While precise data regarding the retirement patterns of the 772 retirees who became reemployed under the bills are not available at this time, it is reasonable to assume that many of these reemployed teachers retired earlier than they would have as a result of the relaxed reemployment rules. Absent demographic data from the State Retirement Agency, Legislative Services assumes that at least two-thirds, or more than 500, of those who became reemployed did so by retiring in their first year of eligibility for normal service retirement (as compared to the actuarial assumptions noted above). Extending the sunset for the three bills will allow currently active teachers to retire early, presumably reflecting the same retirement pattern. Moreover, the longer the bills stay in place, the more likely the State's actuary will be required to revise its table of assumed retirement patterns, resulting in additional State liabilities.

The State's actuary advises that for each TRS member who retires in the first year of eligibility (rather than under the assumptions above), State liabilities increase by $41,550, and annual amortized costs increase by $2,680. Similarly, for each TPS member who retires in the first year of eligibility (rather than under the assumptions above), State liabilities increase by $3,970, and annual amortized costs increase by $450. Assuming that 500 of these retirees (or slightly less than two-thirds of those utilizing the bills) retired early, and reflecting the mix of active TRS and TPS members, then State pension liabilities would increase by $3.8 million. Amortizing these additional liabilities over 25 years, and adjusting for additional normal costs, would result in additional State pension contributions of $332,300 beginning in fiscal 2005, and increasing 5% per year thereafter based on actuarial assumptions.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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