

Department of Legislative Services
Maryland General Assembly
2003 Session

FISCAL AND POLICY NOTE

Senate Bill 27 (Senator Green)
Budget and Taxation

**Teachers' Retirement and Pension Systems - Reemployment of Retired Speech-
Language Pathologists and Audiologists**

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 speech-language pathologists or audiologists.

The bill takes effect July 1, 2003 and terminates June 30, 2004.

Fiscal Summary

State Effect: Potential minimal 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 bill exempts from the reemployment earnings limitation a retiree of the Teachers' Retirement System (TRS) or Teachers' Pension System (TPS) who:

- has verification of better than satisfactory performance in the last assignment prior to retirement;

- based on the retiree's qualifications, has been reemployed as a speech-language pathologist or audiologist;
- retired with a normal service retirement allowance, or retired with an early service retirement allowance and has been retired for at least 12 months; and
- receives verification of better than satisfactory performance each year the retiree is reemployed under this exemption.

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, 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.

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 2001 (the last period in which data is available), SRPS is currently offsetting the retirement benefits of 61 TPS and TRS members with a total offset amount of \$277,599. 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. It cannot be reliably estimated how many retired or soon-to-retire TRS and TPS members meet the bill's requirements and would seek reemployment if the current limitations were removed under the above circumstances.

For illustrative purposes, MSDE advises that local boards of education employ 1,225 speech pathologists and 60 audiologists. Also 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: SB 803 of 2002 received an unfavorable report from the Senate Budget and Taxation Committee. SB 88 of 2001, as amended to reflect this bill, was passed by the Senate, but was amended in a different fashion and passed by the House of Delegates. The differences between the two versions were not resolved.

Cross File: None.

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

Fiscal Note History: First Reader - January 22, 2003
ncs/jr

Analysis by: Matthew D. Riven

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