**Department of Legislative Services**
Maryland General Assembly
2003 Session

# FISCAL AND POLICY NOTE

House Bill 949 (Delegate Sossi, *et al.*)
Appropriations

## Retirement and Pensions - Reemployment of Retirees

This pension bill exempts retirees of the Employees' Retirement System, Employees' Pension System, Teachers' Retirement System, and Teachers' Pension System from the reemployment earnings limitation if they retired under the "16-year rule."

The bill takes effect July 1, 2003.

## Fiscal Summary

**State Effect:** Minimal impact on State pension contributions based on assumptions regarding the number of 16-year rule retirees. To the extent that the change in Administration results in a substantially larger group of eligible retirees, the fiscal impact would be higher but is not expected to be significant.

**Local Effect:** None.

**Small Business Effect:** None.

## Analysis

**Current Law:** Retirees of the employees', teachers', and correctional officers' systems of the State Retirement and Pension System 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 reemployed with the same employer from which they retired are subject to the earnings limitation (with certain exceptions).

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. 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:** Members of the employees' retirement and pension systems who retired under the so-called "16-year rule" (Sections 22-404 and 23-404 of the State Personnel and Pensions Article) are eligible to receive a benefit based on their years of service and average final compensation, with no early retirement reduction, so long as they have 16 years of service. While the "16-year rule" is complex, in summary it applies to elected or appointed officials and employees in unclassified positions who were separated from employment involuntarily. Although the rule is no longer in effect for new employees, members in such positions prior to June 30, 1982 are still subject to its provisions and hence are not subject to an early retirement reduction.

**State Expenditures:** The State Retirement Agency advises that it cannot precisely determine the number of retirees who: (1) have received, or could be eligible for, a benefit under the 16-year rule; and (2) have returned to work, or would return to work, for the same employer from which they retired and, therefore, remain subject to an earnings limitation. In prior years, the agency was aware of approximately six individuals who had retired under the 16-year rule who were subsequently reemployed. The relaxation of reemployment rules, particularly as a result of Chapter 733 of 2001, which permits retirees to work for a participating employer other than the one from which they retired, without an earnings limitation, has already exempted several of those reemployed retirees.

The agency advises that it now is aware of only two retirees who would be subject to this proposal. The total amount that could be recovered from these two retirees, if they exceed their earnings limitation by the full amount of their pension benefits, is $26,400. This group could grow, however, if significant numbers of existing management service and executive service employees (who are employed "at will" and formerly termed "unclassified employees") are involuntarily terminated as a result of the change in Administration and meet the requirements of the 16-year rule. It is unlikely, however, that the number of such employees is large enough to have more than a minimal impact on State pension liabilities, and hence State pension contributions.

## Additional Information

**Prior Introductions:** HB 1412 of 2002 passed the House of Delegates but received an unfavorable report from the Senate Budget and Taxation Committee.

**Cross File:** None.

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

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