HB 104

Department of Legislative Services

Maryland General Assembly
2004 Session

FISCAL AND POLICY NOTE

House Bill 104 (Delegates Leopold and James)
Appropriations

State Retirement and Pension System - Ordinary Disability Retirement Allowance - Earnings Offset

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This pension bill alters the calculation of earnings offsets for ordinary disability retirees of the teachers' and employees' retirement and pension systems. The reduction factor applied to a member's benefit for the first 10 years of retirement (or until normal retirement age) is set at $1 for every $4 of compensation over the member's earnings limitation versus the current offset of $1 for every $2 of compensation. The current offset (of $1 for every $5 of compensation) applicable after 10 years of retirement is eliminated.

The bill is effective July 1, 2004.

Fiscal Summary

State Effect: State pension liabilities would increase by $3.7 million, resulting in increased annual State pension contributions of $222,800 (figures may not sum due to rounding). Out-year costs reflect actuarial assumptions.

(in dollars)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Revenues	$0	$0	$0	$0	$0
GF Expenditure	-	133,700	139,000	144,600	150,400
SF Expenditure	-	44,600	46,300	48,200	50,100
FF Expenditure	-	44,600	46,300	48,200	50,100
Net Effect	$0	($222,900)	($231,600)	($241,000)	($250,600)

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

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: Members of the teachers' and employees' retirement and pension systems (the systems) who retire on an ordinary disability and return to gainful employment may be subject to an earnings limitation if they are under the normal age for retirement (age 62 for the pension systems; age 60 for the retirement systems). The board of trustees of the system reduces a member's benefit by $1 for every $2 of compensation earned in excess of the individual's average final compensation plus $5,000 for the first 10 years of retirement preceding normal retirement age. The reduction factor is lowered to $1 for every $5 over the earnings limitation if the individual has been retired more than 10 years and continues until normal retirement age.

Background: Under current law, a member of the employees' pension system retiring at age 40 on an ordinary disability who's average final compensation was $40,000 would be subject to an earnings limitation of $45,000. For illustrative purposes, if that individual earned $50,000 each year until normal retirement age, their pension benefit would be reduced by $2,500 (1/2 times $50,000-$45,000) per year until age 50 and by $1,000 (1/5 times $50,000-$45,000) from age 50 until age 62. For the 22 years until normal retirement age, this individual would be required to have a total of $37,000 offset under current law.

Under the provisions of this bill, this individual would have their benefit reduced by $1,250 per year (1/4 times $50,000-$45,000) from age 40 until age 50. For the first 10 years of retirement, this individual would be required to have a total of $12,500 offset.

Individual cases would vary based on a number of circumstances including the individual's retirement allowance, earnings that occur after the disability retirement, and age at the time of retirement.

State Fiscal Effect: The State Retirement Agency has provided information related to total number of disability accounts and specific information on the amounts of offsets for those persons who would be affected by this bill. In total, there are 11,382 retirees or beneficiaries receiving disability payments from the State Retirement and Pension System. Of those individuals being offset, 60 have been retired for fewer than 10 years and 45 have been retired more than 10 years but are still under normal retirement age.

In fiscal 2003, the agency recovered approximately $355,000 from the 105 retirees who are subject to the earnings offset. It is not possible to calculate the exact impact. The

Department of Legislative Services estimates, however, that under the bill the agency would recover approximately $153,000 in fiscal 2003 dollars from the 60 retirees currently offset $1 for every $2 in income over the earnings limitation if that offset were adjusted to $1 for every $4 of compensation. The agency would recover nothing from those retired more than 10 years. Thus, recoveries would decline (and benefits would correspondingly increase) by $202,000 in fiscal 2003. Assuming these benefits increase by 4% per year based on actuarial assumptions, total system liabilities would increase by $3.7 million. Amortizing these liabilities over 25 years results in a first-year increase in pension contributions of $222,775 in fiscal 2006, increasing 4% per year based on actuarial assumptions. These additional contributions are assumed to be distributed among general fund agencies (60%), various special fund agencies (20%), and federally-funded agencies (20%).

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 28, 2004
ncs/mdr

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