SB 8

Department of Legislative Services
Maryland General Assembly
2004 Session

FISCAL AND POLICY NOTE

Senate Bill 8 (Senator Green)
Budget and Taxation

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

This pension bill extends the sunset dates for provisions of the State Personnel and Pensions Article that permit teachers, principals, and supervisors of principals to be reemployed by county boards of education under specified circumstances without being subject to an earnings limitation.

Sunsets for each provision are extended for four years through June 30, 2008.

Fiscal Summary

State Effect: State pension liabilities could increase by $56.9 million due to changes in teacher retirement patterns, resulting in increased annual State teacher pension contributions of $3.4 million in FY 2006 (general funds). Out-year costs reflect actuarial assumptions.

($ in millions)	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Revenues	$0	$0	$0	$0	$0
GF Expenditure	0	3.4	3.6	3.7	3.9
Net Effect	$0	($3.4)	($3.6)	($3.7)	($3.9)

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

Current Law: Retirees of the Teachers' Retirement System (TRS) and the Teachers' Pension System (TPS) who receive a service retirement allowance or vested allowance return to employment with a participating employer of the State Retirement and Pension System (SRPS) may receive a reduction in benefits. Benefits are reduced dollar-for-dollar by the amount earnings exceed the difference between their average final salary and their basic allowance at the time of retirement. For example, a retiree who had a final average salary of $50,000 and who receives a pension benefit of $20,000 may earn up to $30,000 in reemployment (the difference between $50,000 and $20,000) without any offset. Any earnings over $30,000 will trigger a dollar-for-dollar reduction in the retiree's pension benefit.

This limitation applies if the retiree is reemployed with the same employer (the State or any of the 107 participating governmental units, including local school boards) from which the individual retired or if the retiree becomes reemployed within 12 months of receiving an early service retirement allowance. Because the retirement agency receives payroll data from participating employers at the end of the calendar year, the offset is applied against the retiree's benefit during the subsequent year. The offset cannot exceed the member's total benefit. Under current law and the provisions of this bill, retired members do not accrue additional pension service credit if they are reemployed with a participating employer. They do, however, receive their pension benefit simultaneously with their reemployment salary (less any reduction in their pension benefit for the offset).

Chapter 518 of 1999, Chapter 245 of 2000, and Chapter 732 of 2001 created exemptions from the earnings limitation for retired teachers, principals, and supervisors of principals (respectively) who are reemployed under certain circumstances.

Each of the exemptions required that members retire with a normal service retirement or wait 12 months if they retire with an early service retirement. The member must have received a satisfactory or better performance review in the last assignment prior to retirement and continue to receive satisfactory or better evaluations to receive the exemption. The local boards of education must notify the State Retirement Agency of any retired members who qualify for the exemptions from the reemployment offset. The State Board of Education must notify the local boards of education as to which schools, counties, or subject areas met the above criteria.

Specific requirements for each exemption are as follows:

(1) for retired teachers (Chapter 578):

- certification to teach in the State;
- receipt of an appointment from the hiring board of education;
- reemployment as:
  - a substitute or permanent classroom teacher or teacher mentor in a public school that has been recommended for reconstitution or has been reconstituted; or
  - a substitute or permanent classroom teacher or teacher mentor in a county or subject area (statewide) in which there is a shortage of teachers, until the board finds that the shortage no longer exists.

(2) for retired principals (Chapter 245):

- employment as a principal within five years of retirement;
- based on the retiree's qualifications, has been hired as a principal;
- reemployment as a principal under the bill for no more than four years.

(3) for retired supervisors of principals (Chapter 732):

- employment as a principal not more than 10 years before retirement and in a position supervising principals in the last assignment prior to retirement;
- based on the retiree's qualifications, has been hired as a principal; and
- reemployment as a principal under the bill for no more than four years.

These exemptions were enacted 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. All three chapter laws sunset on June 30, 2004.

Background: As shown in **Exhibit 1,** 950 teachers and principals were reemployed by local school systems during the 2002-2003 school year under the exemptions. Prince George's County has utilized the exception the most, reemploying 70% to 80% of the teachers and 50% to 60% of the principals employed under these provisions. In Prince George's County, 7.6% of all teachers are reemployed retirees. The exceptions are also widely used in Anne Arundel, Baltimore, and Frederick counties.

Exhibit 1

Retired Teachers and Principals Reemployed Under Chapter 518 of 1999, Chapter 245 of 2000, and Chapter 732 of 2001

Local School System	2000-2001		2001-2002		2002-2003	
	Teachers Reemployed	Principals Reemployed	Teachers Reemployed	Principals Reemployed	Teachers Reemployed	Principals Reemployed
Anne Arundel	31	0	34	0	27	0
Baltimore City	34	1	4	1	0	0
Baltimore County	81	1	48	1	141	16
Frederick	20	5	29	5	57	0
Prince George's	467	12	583	12	610	18
All Other Systems	54	1	58	1	78	3
Total	**687**	**20**	**752**	**20**	**913**	**37**

Note: The exemptions established by Chapter 518 of 1999 and Chapter 245 of 2000 terminate on June 30, 2004.
Source: Maryland State Department of Education

State Fiscal Effect: The Department of Legislative Services (DLS) expects that the removal of the exemption would lead to a decline in the number of teachers that retire in their first year of eligibility. Teachers that retire sooner pay less employee contributions into the systems and collect benefits from the system over a longer period of time.

As shown in **Exhibit 2**, the percentage of teachers retiring from both TRS (7.7% annually) and TPS (11.5% annually) in the first year of eligibility has increased from 1998-2002. This pattern is in contrast to the pattern evidenced in the Employees' Retirement System (-4.2% annually) and the Employees' Pension System (-1.5% annually) which have seen declines in the percentage of members retiring in the first year of eligibility.

Exhibit 2

Percentage of Members Electing Normal Retirement
At First Year of Eligibility
1999-2002

	1998	1999	2000	2001	2002	Average Annual Change
Teachers' Retirement System	25.0%	28.4%	31.1%	33.5%	33.6%	**7.7%**
Teacher's Pension System	15.2%	18.8%	21.2%	25.5%	23.5%	**11.5%**
Employees' Retirement System	27.5%	27.9%	23.5%	24.0%	23.2%	**-4.2%**
Employees' Pension System	21.8%	25.0%	25.7%	26.4%	20.5%	**-1.5%**

Source: Milliman USA, Department of Legislative Services

DLS estimates that if the exemptions sunset, the number of teachers retiring in their first year of eligibility will decline, returning to their patterns prior to enactment of exemptions. DLS estimates that it is reasonable to assume that the rate of first-year eligible retirements will decline by 20% if the exemptions from the earnings limitation sunset, which is consistent with pre-exemption patterns. Extending the sunset would continue that additional 20% of the first-year retirement rate. The total liabilities associated with the first-year retirement rates remaining inflated by the 20% estimate is $56.9 million. This bill would effectively add that liability cost back into the system. Amortizing the cost of those liabilities over a 25-year period would result in fiscal 2006 State contributions of $3.4 million. Out-year costs reflect actuarial assumptions.

Additional Information

Prior Introductions: In 2003, House Bill 1087, a similar bill, received an unfavorable report from the Appropriations Committee.

Cross File: None designated, although HB 306 is identical.

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

Fiscal Note History: First Reader - February 9, 2004
ncs/mdr

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