SB 169

Department of Legislative Services
Maryland General Assembly
2004 Session

FISCAL AND POLICY NOTE

Senate Bill 169 (Senator Kasemeyer)
Budget and Taxation Appropriations

Retirement and Pensions - Ordinary Disability Retirement Allowance - Offsets

This pension bill specifies that the earnings offset for ordinary disability retirees of the State Retirement and Pension System shall apply only to retirees who return to employment with a participating employer.

The bill is effective July 1, 2004.

Fiscal Summary

State Effect: State pension liabilities would increase by $5.5 million, resulting in increased annual State pension contributions of $332,000 beginning in FY 2006 (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	0	199,200	207,100	215,400	224,000
SF Expenditure	0	66,400	69,000	71,800	74,700
FF Expenditure	0	66,400	69,000	71,800	74,700
Net Effect	$0	($332,000)	($345,100)	($359,000)	($373,400)

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 employees' and teachers' pension systems; age 60 for the employees' and teachers' 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 no matter where they returned to employment. For illustrative purposes, if that member returned to employment with a participating employer and earned $50,000 each year until normal retirement age, the 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.

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 (SRA) has provided information related to the 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 benefits 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. SRA estimates, that under this bill the agency would recover approximately $54,000 in fiscal 2003 dollars from the 16 retirees employed by participating employers. Thus, recoveries would decline (and benefits would correspondingly increase) by $301,000 in fiscal 2003. Assuming these benefits increase by 4% per year based on actuarial assumptions, total system liabilities would increase by

$5.5 million. Amortizing these liabilities over 25 years results in a first-year increase in pension contributions of $331,957 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): State Retirement Agency, Milliman USA, Department of Legislative Services

Fiscal Note History: First Reader - February 24, 2004
n/mdr

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