

Department of Legislative Services
Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE

Senate Bill 40 (Senator Green)
Budget and Taxation

Teachers' Retirement and Pension Systems - Reemployment of Retirees

This bill exempts retirees of the Teachers' Pension System (TPS) and the Teachers' Retirement System (TRS) from the reemployment earnings limitations.

The bill is effective July 1, 2005.

Fiscal Summary

State Effect: State pension liabilities could increase substantially due to a lowering of average retirement age. First-year (FY 2007) amortized costs could exceed \$3.6 million, increasing annually.

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: A retiree of TRS and TPS who receives a service retirement allowance or vested allowance and returns to employment with a participating employer of the State Retirement and Pension System is subject to an earnings limitation in the form of a reduction in benefits. Benefits are reduced dollar-for-dollar by the amount earnings exceed the difference between the average final salary and the 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 112 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. A retired member does not accrue additional pension service credit if reemployed with a participating employer, but does receive a pension benefit simultaneously with the reemployment salary (less any reduction in the pension benefit for the offset). Retirees are only subject to an offset in the 10 years after the initial retirement.

Background: 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 were reemployed under certain circumstances. These exemptions terminated June 30, 2004.

Each of the exemptions required that a member retire with a normal service retirement or wait 12 months if the member retired 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 subsequently certified all 24 jurisdictions as having teacher shortages, effectively eliminating the earnings limitation for all teachers' system retirees who returned as classroom teachers.

As shown in **Exhibit 1**, during the 2003-2004 school year, 774 teachers and principals were reemployed by local school systems under the exemptions. This is a decrease of 18.5% from the 2002-2003 school year (950 teachers and principals). Data by local jurisdiction was not available for the 2003-2004 school year. Under the exemptions, Prince George's County 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 were reemployed retirees. The exceptions were also widely used in Anne Arundel, Baltimore, and Frederick counties.

State Fiscal Effect: The Department of Legislative Services (DLS) expects that the exemption would lead to an increase in the number of teachers who retire in the first year of eligibility. Teachers who 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 increased from 1998-2002, resulting in part from the presence of an exemption from the earnings limitation. 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. Members who retire sooner pay fewer contributions into the system and collect benefits over a longer period of time, resulting in increased pension liabilities.

State pension liabilities will increase to the extent that the exemption from the earnings limitation prompts employees to retire earlier than anticipated, thereby decreasing the average retirement age. DLS has estimated that the cost of reimplementing Chapters 518 of 1999, 245 of 2000, and 732 of 2001 (all of which removed earnings limitation for TPS and TRS retirees in specific cases) is \$59.2 million in increased liabilities, resulting in a first-year cost of \$3.6 million. In that this bill does not restrict reemployment by subject matter (*i.e.*, allows more individuals to return to work without an earnings limitation), it is expected that costs will increase substantially over the previous \$59.2 million figure.

Exhibit 2
Percentage of Members Electing Normal Retirement
At First Year of Eligibility
1999-2002

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Average Annual Change</u>
Teachers' Retirement System	25.0%	28.4%	31.1%	33.5%	33.6%	7.7%
Teachers' 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

Additional Information

Prior Introductions: None.

Cross File: None.

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

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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		2003-2004	
	Teachers Reemployed	Principals Reemployed	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	764	10

Note: The exemptions established by Chapter 518 of 1999 and Chapter 245 of 2000 terminated on June 30, 2004.

Source: Maryland State Department of Education
