SB 533

Department of Legislative Services
Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE

Senate Bill 533 (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 applies only to retirees who return to employment with a participating employer.

The bill is effective July 1, 2005.

Fiscal Summary

State Effect: State pension liabilities would increase by $5.3 million, resulting in increased annual State pension contributions of $333,600 beginning in FY 2007 (figures may not sum due to rounding). Out-year costs reflect actuarial assumptions.

(in dollars)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Revenues	$0	$0	$0	$0	$0
GF Expenditure	0	200,200	208,200	216,600	225,200
SF Expenditure	0	66,700	69,400	72,200	75,100
FF Expenditure	0	66,700	69,400	72,200	75,100
Net Effect	$0	($333,600)	($347,000)	($361,000)	($375,400)

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: By way of explaining how current law operates, a member of the employees' pension system who retires at age 40 on an ordinary disability with an average final compensation of $40,000 would be subject to an earnings limitation of $45,000 no matter where the member returned to employment. 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 of $5,000) per year until age 50 and by $1,000 (1/5 of $5,000) 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 approximately 11,000 retirees or beneficiaries receiving disability benefits from the State Retirement and Pension System. Approximately 100 are subject to an offset. 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 2004, the agency recovered approximately $342,000 from the 100 retirees who are subject to the earnings offset. SRA estimates, that under this bill, the agency would have recovered approximately $51,000 from the 15 retirees employed by participating employers. Thus, recoveries would decline (and benefits would correspondingly increase) by $291,000 in fiscal 2004. Assuming these benefits increase by 4% per year based on actuarial assumptions, total system liabilities would increase by $5.3 million. Amortizing these liabilities over 25 years results in a first year (fiscal 2007) increase in pension contributions of $333,600, increasing 4% per year based on actuarial assumptions. These additional contributions are assumed to be general funds (60%), special funds (20%), and federal funds (20%).

Additional Information

Prior Introductions: An identical bill, SB 169 of 2004, passed the Senate, but no action was taken in the House.

Cross File: None.

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

Fiscal Note History: First Reader - February 22, 2005
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Analysis by: Martin L. Levine

Direct Inquiries to:
(410) 946-5510
(301) 970-5510