Department of Legislative Services

Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE

House Bill 414 (Delegate Kach, *et al.*)
Appropriations

Teachers' Retirement System and Teachers' Pension System - Reemployment of Retirees

This bill exempts from an offset of a retirement allowance certain retirees of the Teachers' Retirement System and the Teachers' Pension System. The bill requires a retiree to forego his/her retirement allowance and rejoin the appropriate retirement system on reemployment by the same participating employer that employed the retiree at the time of initial retirement. After the employee "re-retires," the retirement allowance is reinstated and adjusted to reflect the additional service credit accumulated during the period of reemployment. The new allowance does not reflect any accumulated cost-of-living adjustments during the reemployment period.

The bill is effective July 1, 2005.

Fiscal Summary

State Effect: State pension system liabilities could increase to the extent that retirees who are reemployed accrue additional service credit. These increases will be offset by the benefits and cost-of-living adjustments that reemployed retirees forfeit during the reemployment period. Special fund expenditures will increase for modifications to the State Retirement Agency's legacy computer system, to calculate benefit levels without cost-of-living adjustments.

Local Effect: No impact on local pension costs because teacher pension costs are paid by the State. Local school systems could experience a minimal decrease in training and recruitment costs from the continued use of reemployed retirees.

Small Business Effect: None.

Analysis

Current Law: A retiree of the Teachers' Retirement System and the Teachers' Pension System 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 retires 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.

HB 1290 and HB 306 of 2004 both attempted to extend the sunset date for the three chapter laws on reemployment earnings limitations. Neither bill was reported favorably by the Appropriations Committee.

State Fiscal Effect: Pension system liabilities will increase to fund the higher benefit (from accumulated service credit). This increase will be offset by the decrease in liabilities associated with the forfeited benefits and cost-of-living adjustment increases during the reemployment period.

It is possible that the number of employees who return to employment could increase, prompted by the service credit incentive. However, an employee who elects to return will forfeit cost-of-living increases in the benefit in exchange for service credit.

Additionally, for an employee weighing retirement, the bill's service credit provision is not a beneficial option. This employee could stay employed, earn additional service credit and a higher average final compensation, and be in a better position than had the employee retired.

Special fund expenditures will increase for the State Retirement Agency for modifications to the existing legacy information technology system. The benefit calculators in the system are not configured to remove the cost-of-living adjustments, and the expenditures required could prove significant.

Local Effect: Payroll expenditures for local school systems could increase to the extent that the available service credit incentive prompts retirees to return to employment. However, the disincentives in the bill will equally discourage retirees from returning to work. Revenues will not be affected.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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ncs/jr

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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