HB 758

Department of Legislative Services
Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE
Revised

House Bill 758 (Delegate Eckardt, *et al.*)
Appropriations Budget and Taxation

Retirement and Pensions - Reemployment of Retired Health Care Practitioners

This pension bill exempts a retiree of the Employees' Pension System (EPS) or the Employees' Retirement System (ERS) who is reemployed for not more than four years on a contractual basis by the Department of Health and Mental Hygiene (DHMH) as a health care practitioner in specified entities from the earnings limitation (pension offset) during reemployment.

The bill is effective from July 1, 2005.

Fiscal Summary

State Effect: State pension liabilities could increase minimally, resulting in a minimal increase in State employer pension contributions (all funds). DHMH will experience cost savings from employing reemployed retiree nurses in place of agency nurses.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The bill provides for certain reporting requirements. DHMH is required to notify the State Retirement Agency of any retirees who are reemployed via the bill. The Secretary of Health and Mental Hygiene is also required to report to the Joint Committee on Pensions by September 1 of each year with the following information: (1) the number of reemployed retirees under the bill; (2) the annual salary of each reemployed retiree at the time of retirement and at reemployment; (3) the number of health care practitioners hired who are not retirees; and (4) the annual salary of each health care practitioner who is hired.

Current Law: Retirees of ERS and EPS who receive a service or early retirement allowance and who return to employment with a participating employer of the State Retirement and Pension System may be subject to 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 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. Under current law and the provisions of this bill, a retired member does not accrue additional pension service credit if 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).

Background: Chapter 733 of 2001 created a temporary exemption from the earnings limitation for retired health care practitioners reemployed on a contractual basis by the DHMH as a health care practitioner in a State residential center, chronic disease center, State facility, or county board of health. Chapter 733 terminated on June 30, 2004.

As shown in **Exhibit 1**, DHMH filled 81 positions in fiscal 2004 under Chapter 733, with most positions filled by registered nurses, licensed practical nurses, community health nurses, and direct care assistants.

Exhibit 1
Retired Health Care Practitioners Reemployed Under Chapter 733 of 2001

Class Title	*Fiscal 2002*		*Fiscal 2003*		*Fiscal 2004*	
	Employees	**FTEs**	**Employees**	**FTEs**	**Employees**	**FTEs**
Registered Nurses	24	9.30	27	9.97	26	11.41
Licensed Practical Nurses	12	7.23	13	8.03	20	10.65
Community Health Nurses	12	.95	12	4.59	21	9.62
Direct Care Assistants	10	4.82	9	4.80	11	4.97
Other Titles	9	2.76	14	4.78	3	.65
Total	**67**	**31.06**	**75**	**32.17**	**81**	**37.3**

Note: The exemption established by Chapter 733 of 2001 terminated June 30, 2004.
Source: Department of Health and Mental Hygiene

State Fiscal Effect: DLS expects the removal of the exemption will lead to a minimal increase in patterns of retirement behavior. As shown in **Exhibit 2**, the percentage of teachers retiring from both the Teachers' Retirement System (7.7% annually) and the Teachers' Pension System (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 ERS (-4.2% annually) and EPS (-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. This could result in a minimal increase in the State contribution rates. However, this impact will be mitigated by the fact that:

- the rates for retirement at first point of eligibility for ERS and EPS declined from 1998-2002, including the period in that span that nurses had an exemption from the earnings limitation (2001-2002). DLS expects this trend toward later retirement to hold;

- the population taking advantage of this exemption has been relatively small (67-81 employees), compared to the total population of ERS and EPS (86,444 active members as of June 30, 2004)

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%**
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

DHMH employs reemployed retired nurses at a lower cost than private agency nurses. There is an industrywide nursing shortage in health care; independent temporary employment agencies contract out nurses at a much higher cost than that of regular employees. Reemployed nurses are hired at a lower rate than agency nurses, and provide a viable alternative for filling vacant positions and shifts that would otherwise require DHMH to pay overtime rates. The use of reemployed retiree nurses saved DHMH $109,600 in fiscal 2004. Each nurse that returns to employment under this bill would be at a lower cost to DHMH than an agency nurse.

Additional Information

Prior Introductions: A similar bill, HB 774 of 2004, was unfavorably reported by the Appropriations Committee.

Cross File: None.

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

Fiscal Note History:	First Reader - February 20, 2005
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