

Department of Legislative Services
 Maryland General Assembly
 2007 Session

FISCAL AND POLICY NOTE

House Bill 478 (Delegate Costa)
 Appropriations

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

This bill expands the types of public schools that can rehire a retired teacher or principal without triggering a retirement benefit reduction to include schools with critical shortages in academic areas identified by the Maryland Department of Education (MSDE).

The bill takes effect July 1, 2007.

Fiscal Summary

State Effect: Accrued State pension liabilities increase by \$2.6 million due to more teachers retiring earlier than expected. Amortizing that liability over 25 years results in increased State pension contributions of \$159,000 beginning in FY 2009, increasing thereafter according to actuarial assumptions.

(in dollars)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	0	159,000	332,000	517,000	718,000
Net Effect	\$0	(\$159,000)	(\$332,000)	(\$517,000)	(\$718,000)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: Retired teachers and principals in the Teachers' Retirement System (TRS) or the Teachers' Pension System (TPS) who are rehired on a contractual basis for up to four years by schools experiencing a critical shortage in an academic field identified by MSDE are not subject to a benefit reduction.

In its annual reports to the Joint Committee on Pensions regarding reemployment of retired teachers and principals, MSDE must specify the number of retired teachers and principals hired by schools with critical area shortages.

Current Law: In general, retirees who are receiving a retirement benefit from the State may be reemployed, subject to a reduction in their retirement benefit under certain circumstances. Retired teachers and principals who are reemployed by their former employer (the same school district) are subject to the benefit reduction, which is calculated as follows:

[Current annual compensation] + [Initial annual retirement allowance] – [Average final compensation at retirement]

Prior to July 1, 2005, retired teachers and principals were not subject to the benefit reduction if they:

- had been retired for more than nine years;
- had an average final compensation less than \$10,000 and were reemployed on a temporary or contractual basis;
- were serving as an elected official; or
- had retired from TRS, been rehired by a participating employer other than the State before September 30, 1994, and their compensation did not derive in any way from State funds.

Chapter 499 of 2005 added additional conditions that TRS/TPS retirees have to satisfy to qualify for the exemption. Under Chapter 499, TRS/TPS retirees who return to work for their previous employer can avoid a retirement benefit reduction if they:

- are or have been certified to teach in the State;
- received satisfactory or better performance evaluations in their last assignment prior to retirement;
- are appointed to their new position in accordance with statutory provisions; and
- continue to receive satisfactory or better performance evaluations in their current jobs.

In addition, to avoid the benefit reduction, they must satisfy both of the following criteria:

1. be rehired by a school that • receives funds under Title I of the No Child Left Behind Act of 2001 (NCLB); • provides an alternative education program for adjudicated youth or students who have been expelled or suspended from public schools; or • is not making adequate yearly progress (AYP) or is deemed to be “in need of improvement” under NCLB; and
2. be rehired as a classroom teacher, substitute classroom teacher, teacher mentor, or substitute teacher mentor in a subject area identified by MSDE as an area of critical shortage, or serve students with special needs or limited English proficiency.

In addition, Chapter 499 allows each school system to hire from 3 to 10 retired teachers at eligible schools, depending on their size, without restricting which subject areas they can teach.

This bill adds schools with areas of critical shortage as a separate category to #1 above.

The State Superintendent of Schools must report to the Joint Committee on Pensions by October 1 of each year on: (1) the number of retirees, the school, and school system for each, the subject taught, the salary received at retirement, and the current salary; (2) whether the school was eligible under the bill; and (3) the length of reemployment for each retiree.

Background: Prior to the stricter conditions on the rehiring of retired teachers and principals imposed by Chapter 499 of 2005, between 770 and 950 retired teachers and principals were rehired by local school systems each year. Prince George’s County and Baltimore City public schools were responsible for the largest number of rehires, together accounting for more than 80% of all reemployed teachers and principals. As shown in **Exhibit 1**, Chapter 499 dramatically reduced the number of retired teachers and principals who were re-employed by local school systems.

Exhibit 1
Retired Teachers and Principals Reemployed by Local School Systems

	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>
Rehired teacher and principal retirees	772	950	774	174	148

MSDE has identified the following content areas as areas of critical shortage for the 2006-07 school year (grades 7-12 unless otherwise noted):

- special education (all grades);
- English for speakers of other languages (all grades);
- chemistry;
- physical science;
- earth/space science;
- chemistry;
- math;
- Spanish;
- Latin;
- dance (all grades);
- computer science;
- health occupations; and
- technology education.

State Fiscal Effect: The bill would dramatically increase the number of schools eligible to employ retired teachers and principals without triggering a retirement benefit reduction. Assuming, at a minimum, that all secondary schools in the State teach math and science and that almost all elementary schools have special education programs, retired teachers and principals could be rehired by all 499 secondary schools and almost all the State's 826 elementary schools without being subject to a retirement benefit reduction. Under current law, the Department of Legislative Services (DLS) estimates that not more than 400 schools are eligible to employ retired teachers and principals without a retirement reduction, including 370 Title I schools. Once rehired, teachers would still be required to teach in a critical shortage area. Nevertheless, DLS believes that the expansion of eligible schools will restore the number of reemployed teachers and principals to levels experienced before Chapter 499 reduced that number. Based on those pre-Chapter 499 levels, DLS assumes that up to 1,000 teachers and principals will be reemployed without a pension offset, or 850 more than are currently reemployed.

Based on that assumption, the General Assembly's actuary estimates that, on average, teachers who choose to be reemployed after retirement will retire one year earlier than they would have otherwise, thereby lengthening the period of time that the State would have to pay them benefits by one year. This increases accrued pension liabilities by \$2.6 million. Amortizing that liability over 25 years results in State pension contributions increasing by \$159,000 in fiscal 2009. As more teachers elect to retire earlier than originally planned each year, payments increase in future years according to actuarial assumptions. State pension contributions for TRS/TPS are 100% general funds.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Mercer Human Resources Consulting, Maryland State Department of Education, Maryland State Retirement Agency, Department of Legislative Services

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ncs/jr

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