

Department of Legislative Services
Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE
Revised

House Bill 1513

(Chair, Appropriations Committee)(By Request -
Departmental - Health and Mental Hygiene)

Appropriations

Budget and Taxation

**Employees' Retirement and Pension Systems - Reemployment of Retirees -
Health Care Practitioners**

This departmental bill temporarily repeals the four-year limitation on contractual reemployment as health care practitioners for retirees of the Employees' Retirement System (ERS) or the Employees' Pension System (EPS) during which they are exempt from a reduction to their retirement allowance.

The bill takes effect July 1, 2009, and terminates June 30, 2011.

Fiscal Summary

State Effect: No effect on State pension liabilities or contribution rates. No effect on revenues.

Local Effect: None.

Small Business Effect: The Department of Health and Mental Hygiene (DHMH) has determined that this bill has minimal or no impact on small business (attached). Legislative Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

Analysis

Current Law: In general, retirees who receive a retirement benefit from the State may be reemployed. In most cases, however, their benefit payment is subject to a reduction if they are rehired by the same employer for whom they worked at the time of their

retirement. For members who retire directly from State service, the State is regarded as a single employer, so reemployment with any State agency activates the benefit reduction, which is calculated as follows:

Benefit Reduction = [Current annual compensation] + [Initial annual retirement allowance] – [Average final compensation (AFC) at retirement].

As an example, if a member retires with an AFC of \$60,000 and an initial benefit of \$32,400, and is rehired with an annual salary of \$50,000, the offset is equal to:

$$\$50,000 + \$32,400 - \$60,000 = \mathbf{\$22,400}.$$

The retiree's annual benefit therefore becomes \$10,000 (\$32,400 - \$22,400), which makes the retiree's total income the same as AFC at the time of retirement (\$60,000).

ERS and EPS retirees are exempt from the benefit reduction for four years if they are reemployed on a contractual basis by DHMH as a health care practitioner in a:

- State residential center;
- chronic disease center;
- State facility; or
- local health department.

Under certain circumstances, teachers, principals, correctional officers, and judges are exempt from the reemployment offset.

Background: Chapter 733 of 2001 established a temporary exemption from the retirement benefit reduction for health care practitioners reemployed on a contractual basis by DHMH; Chapter 733 terminated on June 30, 2004. Chapter 395 of 2005 reestablished the exemption for health care practitioners and instituted the four-year limitation.

Both pieces of legislation were designed to help DHMH address a chronic shortage of nurses in State health care facilities, especially in those that provide round-the-clock care. A 2005 report by the Statewide Commission on the Crisis in Nursing projected a shortage of more than 17,000 nurses in Maryland by 2012.

In fiscal 2008, DHMH reemployed 131 retired health care practitioners, of whom 83 were nurses.

State Fiscal Effect: Given the current exemption's extended history, Legislative Services does not expect that the temporary repeal of the four-year limit significantly increases the number of reemployed retirees eligible for the exemption. Since active health care practitioners may already choose to retire and be reemployed without a reduction to their benefit, the temporary repeal should not significantly affect retirement rates; nor does it provide added incentive to retire early. Therefore, the only potential fiscal effect is the foregone offsets for eligible ERS/EPS retirees who remain reemployed beyond the current four-year limit. The State Retirement Agency has consistently advised that its actuary does not account for foregone offsets in its annual valuation of State pension liabilities. Therefore, there is no effect on pension liabilities or State pension contribution rates.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Health and Mental Hygiene, Mercer Human Resources Consulting, Maryland State Retirement Agency, Department of Legislative Services

Fiscal Note History: First Reader - March 25, 2009
mcp/rhh Revised - Enrolled Bill - May 20, 2009

Analysis by: Michael C. Rubenstein

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

ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Employees' Retirement and Pension Systems – Reemployment of Retirees
– Health Care Practitioners

BILL NUMBER: HB 1513

PREPARED BY: Department of Health and Mental Hygiene

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND
SMALL BUSINESS

OR

WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND
SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

The proposed legislation will have no impact on small business in Maryland.