SB 443

Department of Legislative Services

Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE

Senate Bill 443 (Senator Madaleno)
Budget and Taxation

Teachers' Retirement and Pension Systems - Reemployment of Retirees - Retired Higher Education Faculty

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This bill requires that the average final compensation used to determine the benefit offset for a retired college or university faculty member on a 10-month contract, who is reemployed by the retiree's former employer, be recalculated to include all earnings the retiree received in an entire calendar year.

The bill takes effect July 1, 2009.

Fiscal Summary

State Effect: Special fund expenditures by the State Retirement Agency (SRA) increase by $100,000 in FY 2010 to reprogram its computer system. No discernible effect on State pension liabilities or contribution rates. No effect on revenues.

(in dollars)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Revenues	$0	$0	$0	$0	$0
SF Expenditure	100,000	0	0	0	0
Net Effect	($100,000)	$0	$0	$0	$0

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

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The bill applies to retirees of the Teachers' Retirement System (TRS) or Teachers' Pension System (TPS) who retired directly from the University System of Maryland, Morgan State University, St. Mary's College of Maryland, or a community college and who, while active members, received a 10-month salary.

If an eligible retiree is reemployed, the average final compensation used to determine the benefit reduction is based on any earnings the retiree received over the three consecutive calendar years that provide the highest average final compensation.

Current Law: In general, a retiree who is receiving a retirement benefit from the State may be reemployed. In most cases, a retiree's benefit payment is subject to a reduction if the retiree is rehired within nine years of retirement by the same employer for whom the retiree worked at the time of retirement. If the sum of a reemployed retiree's annual compensation and initial retirement allowance exceeds the member's average final compensation at the time of retirement, the retiree's retirement allowance is subject to a dollar-for-dollar reduction.

The calculation of the retiree's average final compensation at the time of retirement is based on a three-year average of the retiring member's earnable compensation, which is defined as the member's annual salary for normal work time. It does not include any additional compensation, including bonuses, overtime, or supplemental income.

Teachers, principals, health care practitioners, correctional officers, and judges are exempt from the reemployment offset under limited circumstances.

Background: Employers report all earnings for a reemployed retiree to SRA based on the individual's W-2 tax statement. In calculating the retiree's offset, SRA uses the total current income reported on the W-2 form, which includes bonuses, overtime, and supplemental income. However, as noted above, only the retiree's earnable compensation (annual salary) is used to calculate average final compensation for benefit payments.

State Fiscal Effect:

Pension Liabilities: The bill effectively raises the final average compensation used to determine benefit offsets for some eligible reemployed retirees. Additional earnings that an eligible member may have received during active membership, such as bonuses, overtime, and summer school stipends, are not normally included in calculations of average final compensation. The net effect is that benefit offsets for those individuals decrease. The State Retirement and Pension System's actuary does not include foregone benefit offsets in its calculation of the system's liabilities, so there is no direct effect on State pension liabilities or contribution rates.

However, the bill's provisions may have an indirect effect on liabilities. The reduced pension offset means that reemployed retirees keep more of their retirement benefit if they are reemployed by their former employer. That may prompt current eligible members to retire earlier than they had planned and seek reemployment with their former employer. Earlier-than-planned retirements increase system liabilities because they require the system to pay benefits for a longer period. Legislative Services does not anticipate that earlier-than-planned retirements will occur in large numbers, so the effect on pension liabilities is negligible.

Administrative Costs: SRA advises that its Legacy Pension System is not programmed to accommodate two different amounts for average final compensation, one for benefit calculations and one for offset calculations. The new Maryland Pension Administration System (MPAS) is scheduled to replace the legacy system by July 2010. It is designed to provide a more agile computing platform that can more easily process changes in pension law. However, given the bill's July 1, 2009 effective date, SRA needs to reprogram the legacy system to accommodate the change for one year before it makes the transition to MPAS. The legacy system, which is more than 30 years old, uses an obsolete platform and programming code, so the cost of reprogramming can be significant. Legislative Services estimates that the cost of reprogramming may be as high as $100,000.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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Analysis by: Michael C. Rubenstein

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