

Department of Legislative Services
Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE
Revised

House Bill 1495
Appropriations

(Delegates G. Clagett and DeBoy)

Budget and Taxation

State Police Retirement System - Reemployment of Retirees

This bill exempts a reemployed retiree of the State Police Retirement System (SPRS) from a retirement allowance reduction if the retiree is reemployed by the Department of State Police (DSP) at a rank of trooper first class. It also provides a disability benefit to a reemployed SPRS retiree who is incapacitated while reemployed as either a trooper first class or as a Maryland State Police Aviation Command (MSPAC) helicopter pilot, and a death benefit to the surviving family members of an SPRS retiree who is killed while reemployed in either of the same two capacities. DSP must submit an annual report to the State Retirement Agency (SRA) on the number and compensation of retirees it reemploys.

The bill takes effect July 1, 2009, and terminates June 30, 2014. It applies retroactively to any SPRS retiree who was reemployed as a helicopter pilot by MSPAC and who was killed in the line of duty on or after July 1, 2008.

Fiscal Summary

State Effect: Minimal increase in State pension liabilities and contribution rates for DSP, but the extent of the increase cannot be determined. Potential minimal decrease in personnel costs for DSP, but not enough to offset the increase in pension costs. No effect on revenues.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The exemption from the retirement offset applies only to an SPRS retiree who is reemployed on a contractual basis for no more than four years; a retiree older than age 60 may not be reemployed. The retiree must terminate participation in the Deferred Retirement Option Program (DROP) and receive any lump sum payment that is due from DROP before becoming reemployed. While reemployed, the retiree does not make member contributions to any State retirement or pension plan, does not have employer contributions made on his or her behalf, and does not earn service credit in any State Retirement and Pension System plan.

The disability benefit applies to a reemployed retiree who is totally and permanently incapacitated while performing official duties and who was not willfully negligent. The benefit is equal to two-thirds of the retiree's average final compensation (AFC) at the time of retirement, including accumulated cost-of-living adjustments.

The death benefit applies to a reemployed retiree who is killed in the course of performing official duties and was not willfully negligent. The death benefit is equal to a lump sum payment of the member's accumulated contributions and a special allowance equal to two-thirds of the retiree's AFC at the time of retirement, with accumulated cost-of-living adjustments from the date of retirement. It is payable to the retiree's spouse, dependent children, or dependent parents, in that order of preference.

Current Law/Background:

Reemployment Benefit Reduction: 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] – [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).

Under certain conditions, teachers, principals, correctional officers, and health care providers are exempt from the benefit reduction for reemployment with their former employers.

State Police Retirement Benefits: An SPRS member is eligible to retire at age 50 or after accumulating 22 years of eligibility service, regardless of age. The member must retire at age 60. The retirement allowance is equal to 2.55% of AFC multiplied by the number of years of creditable service. For an SPRS member, AFC equals the average of the member's highest three years of compensation. The retirement allowance is subject to a cap of 71.4% of AFC (the equivalent of 28 years of service).

An SPRS member is eligible to participate in a DROP program. To participate, the member must have at least 22 years of service, but less than 28, and be younger than age 60. The maximum period of participation is four years. During the DROP period, the member continues employment but is deemed to be retired, and the retirement allowance is placed in an account earning 6% interest. At the end of the DROP period, the lump sum held in the DROP account is paid to the member, who must then terminate employment and receive a regular retirement allowance.

Surviving family members of an SPRS member with at least two years of service and who dies other than in the line of duty are entitled to a special death benefit equal to 50% of compensation at the time of death. If the SPRS member dies in the line of duty, the death benefit is equal to two-thirds of AFC at the time of death, plus the return of accumulated contributions.

Aviation Command: Since 1970, MSPAC has operated a system of aircraft to provide emergency medical evacuation (Medevac) services and other flight services to the State's citizens. Special funds from the Maryland Emergency Medical System Operations Fund (MEMSOF) support Medevac and search and rescue functions, and general funds support law enforcement and homeland security functions. Beginning in fiscal 2003, the funding split was made 80% special fund and 20% general fund based on the ratio of Medevac flights to nonmedically related flights.

Approximately 40 helicopter pilots are employed by the State emergency medical system, of whom seven are SPRS retirees and six are active SPRS members. As reemployed retirees, the seven pilots are not currently eligible for any line-of-duty death benefits in the event they are killed in an accident because they are not members of any State retirement or pension plan. However, upon their death, their spouses automatically receive monthly payments equal to 50% of the retiree's retirement allowance, a benefit that is paid to all surviving spouses of SPRS retirees. A September 2008 crash of an MSPAC helicopter killed four people, including the pilot, who was an SPRS retiree.

State Fiscal Effect: As of June 30, 2008, there are 2,149 SPRS retirees and beneficiaries. Legislative Services does not know how many are beneficiaries and how many are older than age 60 and therefore not eligible to be employed as State Police officers.

It is difficult to predict how many SPRS retirees will opt to be reemployed. Under a similar reemployment program for correctional officers that has been in effect for three years, no retired correctional officers have been reemployed. However, that program does not extend disability and death benefits to retired correctional officers who are reemployed, which likely deters participation. DSP advises that approximately 120 members retire each year, and estimates that about 10% or 12 members will opt to be reemployed each year. Based on that assumption, the bill may affect State expenditures in four different ways.

Foregone Reductions: Reemployed SPRS retirees are not subject to the retirement offset under this bill, so SRA continues to make full benefit payments to those retirees instead of reducing their benefits as dictated by current law. In most cases, when benefit payments are larger than expected, the difference between the expected benefit and the actual benefit is recognized as an actuarial loss in the annual valuations conducted by the system's actuary. However, SRA has consistently advised that its actuary does not recognize foregone offsets in its annual valuations, so there is no effect on State pension liabilities or contribution rates.

Earlier Retirement: The purpose of the reemployment offset is to dissuade a member from retiring with the knowledge that he or she can be reemployed in the same job and still collect a full retirement benefit. The offset reduces total income from the combined retirement benefit and salary to what the member would receive if he or she remained employed. By eliminating the offset, the bill may encourage an SPRS member to retire earlier than he or she normally would. An earlier-than-planned retirement increases State pension liabilities because it requires the State Retirement and Pension System to make a benefit payment over a longer period of time than expected. Those increased liabilities are recognized as actuarial losses in annual valuations and may contribute to increased pension contributions for the State.

Any early retirement effect from this bill is likely mitigated by the existence of the DROP program, which already allows SPRS members to "retire" earlier than planned while continuing to earn a full salary. The early retirement effect of this bill is confined only to those members who complete their participation in DROP and still want to continue working as a State trooper. DSP has indicated that it will reemploy only retired troopers who are fit for front-line duties, so the early retirement effect is further mitigated because some retirees will not have the desire or conditioning to work in that capacity. Therefore, Legislative Services believes the effect of early retirements stemming from this bill on State pension liabilities and contribution rates is minimal.

Personnel Cost Savings: Rehiring a retired trooper may be less expensive than hiring a new recruit. Although a salary for a reemployed trooper is likely higher than for a new recruit because of seniority, DSP does not have to pay for employee benefits or new equipment for a rehired trooper. DSP estimates the savings to be about \$60,000 per reemployed trooper. However, most of that savings comes from two expense categories: health insurance and equipping a new vehicle for a new recruit. Although it is true that DSP does not pay for medical coverage for the retired trooper, but does pay for the new recruit, the State continues to provide the retiree with the same subsidized medical coverage he or she received as an active employee. Therefore, there is no State savings for health coverage. Also, Legislative Services assumes that a new recruit can inherit the vehicle previously used by the retired trooper, so there should not be a cost for equipping a new vehicle for the new recruit. Legislative Services concludes that any potential savings from reemploying a retired trooper compared with the cost of hiring a new recruit are minimal.

Special Death Benefit: The surviving spouse of the SPRS retiree killed in the September 2008 helicopter crash is entitled to a line-of-duty death benefit equal to two-thirds of the retiree's compensation at the time of the crash. That benefit is paid instead of the SPRS death benefit paid to all surviving spouses of retirees. Additional retirement benefits paid to a single individual are assumed to add minimally to the State's pension liabilities and to have no discernible effect on State pension contributions. Future death benefits attributable to reemployed troopers or MSPAC pilots under the bill through fiscal 2014 may increase State pension liabilities and contributions minimally but cannot be reliably estimated.

Additional Information

Prior Introductions: None.

Cross File: SB 1019 (Senator McFadden, *et al.*) - Budget and Taxation.

Information Source(s): Department of State Police, Department of Legislative Services

Fiscal Note History: First Reader - March 16, 2009
mcp/rhh Revised - House Third Reader - April 6, 2009
Revised - Enrolled Bill - May 21, 2009

Analysis by: Michael C. Rubenstein

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