SB 829

Department of Legislative Services

2010 Session

FISCAL AND POLICY NOTE

Revised

Senate Bill 829 (Senator Madaleno)

Budget and Taxation Appropriations

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

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This bill excludes certain forms of compensation from the calculation of annual compensation used to determine a pension benefit reduction for a retired college or university faculty member on a 10-month contract who is reemployed by the retiree's former employer.

The bill takes effect July 1, 2010.

Fiscal Summary

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

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, Baltimore City Community College, or a local community college and who, while active members, received a 10-month salary.

If an eligible retiree is reemployed by the same employer for whom the retiree worked at the time of retirement, the annual compensation of the reemployed retiree used to determine the benefit reduction does not include:

- bonuses;
- overtime;
- summer school salaries;
- adult education salary;
- additional temporary payments from special research projects;
- honorariums; and
- vehicle stipends.

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 the State Retirement Agency (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: The bill effectively lowers the annual compensation used to determine benefit offsets for some eligible reemployed retirees. Additional earnings that an eligible member receives while reemployed, such as bonuses, overtime, and summer school stipends, are normally included in calculations of annual compensation, but they are excluded under this bill. The net effect is that benefit offsets for those individuals decrease or are eliminated, depending on the amount of the reduction. 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.

SRA's new and modernized information technology system goes live July 2010; any reprogramming of the new system necessary to reflect the bill's provisions can be accomplished with existing resources.

Additional Information

Prior Introductions: SB 443 of 2009 received a hearing from the Senate Budget and Taxation Committee, but no further action was taken on the bill.

Cross File: None.

Information Source(s): Baltimore City Community College, Maryland Higher Education Commission, Morgan State University, Coppin State University, University System of Maryland, Department of Legislative Services

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