HB 634

Department of Legislative Services

Maryland General Assembly
2011 Session

FISCAL AND POLICY NOTE
Revised

House Bill 634 (Delegate Griffith)(Chair, Joint Committee on Pensions)
Appropriations Budget and Taxation

State Retirement and Pension System - Reemployment Earnings Offset - Retiree Health Care Premiums

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This bill limits the amount by which the State Retirement and Pension System (SRPS) may offset a reemployed retiree's allowance to no more than an amount sufficient to pay the retiree's approved monthly medical insurance premiums, as established by the State or a participating employer from which the member retired. The bill applies to retirees of the Employees' or Teachers' Retirement Systems (ERS/TRS), Employees' or Teachers' Pension Systems (EPS/TPS), Correctional Officers' Retirement System (CORS), State Police Retirement System (SPRS), and Judges' Retirement System (JRS) who are subject to a benefit offset because they are reemployed by the same employer for whom they worked at the time of retirement. SRPS must recover from the retiree the amount of any foregone offset due to the bill.

The bill takes effect July 1, 2011, but portions of the bill affecting SPRS and JRS take effect only on the termination of existing provisions that authorize the reemployment of State Police officers and judges without a benefit offset under certain circumstances.

Fiscal Summary

State Effect: None. The bill codifies existing practice. It is possible that some foregone offsets are not recovered as required by the bill; however, the SRPS actuary has consistently advised that foregone offsets are not accounted for in its annual valuation, so they have no effect on State pension liabilities or contribution rates.

Local Effect: None. The bill does not affect local governmental expenditures for retiree health coverage.

Small Business Effect: None.

Analysis

Current Law: In general, SRPS retirees are subject to an earnings limitation if they are reemployed by the employer for whom they worked at the time of retirement. For the purpose of calculation of the earnings limitation, all units of State government are considered a single employer. If a retiree is reemployed by the employer for whom he or she worked at the time of retirement, the pension benefit reduction 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 = **$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).

SRPS retirees are not subject to the benefit reduction if they:

- have been retired for more than nine years;
- had an AFC less than $10,000 and are reemployed on a temporary or contractual basis; or
- serve as an elected official.

In addition, recent laws have provided specified exemptions for retirees of different SRPS plans. Retirees of ERS and EPS are exempt from retirement benefit reductions if they are reemployed as a health care practitioner in specified medical institutions. Retirees of TRS and TPS are exempt if they are reemployed by their former employer as principals or teachers in underserved or underperforming schools, as specified in statute. CORS retirees are exempt from retirement benefit reductions if they are reemployed as correctional officers on a contractual basis for less than four years.

Chapter 644 of 2009 exempts a SPRS retiree from a retirement allowance reduction if the retiree is reemployed by the Department of State Police (DSP) at a rank of trooper first class. The exemption terminates June 30, 2014.

Chapter 688 of 2010 exempts a JRS retiree from a retirement allowance reduction if the retiree is reemployed by any unit of State government, as long as the retiree is not rehired within 45 days of retiring from State service. The exemption terminates June 30, 2014.

Background: SRPS retirees have the option of having approved medical insurance premiums deducted from their monthly benefit payments. The State Retirement Agency (SRA) advises that it has been its practice to limit the amount of a benefit offset for reemployed retirees so that the portion of the monthly benefit needed to cover the employee cost of retiree health insurance premiums can continue to be paid. Any foregone offset was then carried over by the agency for future recovery, either in the following fiscal year or future fiscal years. Such limitations are authorized in statute for disability retirees but not for normal service retirees. Therefore, SRA seeks conforming legislation.

Additional Information

Prior Introductions: None.

Cross File: SB 403 (Senator Jones-Rodwell)(Chair, Joint Committee on Pensions) - Budget and Taxation.

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

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