HB 176

Department of Legislative Services

Maryland General Assembly
2011 Session

FISCAL AND POLICY NOTE

House Bill 176 (Delegate Eckardt)
Appropriations Budget and Taxation

State Retirement and Pension System - Reemployment of Retirees - Exemptions

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This bill reduces from nine to five the number of years that a retiree of the Employees' Retirement System (ERS), Employees' Pension System (EPS), Teachers' Retirement System (TRS), or Teachers' Pension System (TPS) must wait in order to be exempt from a reemployment earnings limitation if the retiree is hired by the individual's last employer prior to retirement.

The bill takes effect July 1, 2011.

Fiscal Summary

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

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: In general, retirees of ERS, EPS, TRS, and TPS 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).

ERS, TRS, EPS, and TPS 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;
- serve as an elected official;
- are reemployed as a health care practitioner in specified medical institutions; or
- are reemployed as principals or teachers in underserved or underperforming schools, as specified in statute.

State Fiscal Effect: The bill could affect State retirement liabilities in at least two ways described below, but Legislative Services concludes that the potential effects are either negligible or unlikely.

Foregone Benefit Reductions: Under the bill, fewer retirees of the four systems are subject to the earnings limitation, which means that more retirees are eligible to return to work with their former employers without a benefit reduction. The State Retirement Agency (SRA) advises that, in calendar 2009, it identified 132 retirees of TPS, EPS, TRS, and ERS who were subject to the earnings limitation. In a review of a random set of records, the agency found that about two-thirds would be at least five years past their retirement date and, therefore, under this bill, not be subject to the reduction. Based on total annual benefit recoveries of approximately $1.0 million, the agency estimates that it may lose about $670,000 in foregone recoveries. However, SRA has consistently advised that its actuary does not recognize foregone benefit offsets in its annual valuations, so there is no actual effect on State pension liabilities or contribution rates.

Earlier Retirements: 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 for people who have been retired for only five years,

the bill may encourage a member to retire earlier than he or she normally would. An earlier-than-planned retirement increases State pension liabilities because it requires SRA 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. However, the General Assembly's consulting actuary advises that the proposed change is unlikely to prompt individuals to retire sooner than they otherwise would because they still have to wait five years to be exempt from the offset. Therefore, the overall effect on pension liabilities, if any, is expected to be negligible, yielding no discernible effect on pension contribution rates.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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