SB 250

Department of Legislative Services

Maryland General Assembly
2012 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 250 (Senator Jones-Rodwell)(Chair, Joint Committee on Pensions)

Budget and Taxation Appropriations

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 State Police Retirement System (SPRS) or the Correctional Officers' Retirement System (CORS) 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, including participating governmental units (PGUs).

The bill takes effect July 1, 2012.

Fiscal Summary

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

Local Effect: No discernible effect on PGU pension liabilities.

Small Business Effect: None.

Analysis

Current Law: In general, retirees of the State Retirement and Pension System, including SPRS and CORS 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).

SPRS retirees are not subject to the benefit reduction if they have been retired for more than nine years or if they participate in the Deferred Retirement Option Program (DROP). In addition, Chapters 643 and 644 of 2009 exempted SPRS retirees from the benefit reduction if they are reemployed by the Department of State Police on a contractual basis as a police officer at the rank of trooper first class; the latter exemption included additional restrictions regarding the retiree's age and length of reemployment, and it is subject to termination on June 30, 2014.

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

- have been retired for more than nine years;
- had an AFC of less than $25,000 at the time of retirement and they are reemployed on a permanent, temporary, or contractual basis;
- are an elected official for a participating governmental unit; or
- are reemployed for no more than four years as a correctional officer in the Division of Correction, the Division of Pretrial Detention and Services, or the Patuxent Institution.

Chapter 258 of 2006 established a municipal pool within CORS for local detention center officers. It did not, however, subject them to the benefit offset if they retired and were rehired by their former employer; this was not an issue until fiscal 2011 because there were no PGUs in CORS. However, Worcester County elected to include its detention center officers in CORS beginning in fiscal 2011.

Background: Chapter 106 of 2011 reduced 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. SPRS and CORS retirees were not included in Chapter 106.

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

Foregone Benefit Reductions: Under the bill, fewer retirees of the two 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. This means that the State Retirement Agency (SRA) may recover less money in benefit offsets than it does under current law. However, since Chapter 392 of 2006 first allowed correctional officers to be reemployed without a benefit reduction, only a handful of retirees have taken advantage of that provision. Therefore, DLS does not expect a significant number of CORS retirees to take advantage of the exemption provided by this bill. Similarly, very few SPRS retirees have taken advantage of the reemployment exemption provided by Chapters 643 and 644, largely due to the existence of DROP. Moreover, 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 even if CORS and SPRS retirees take advantage of the exemption in the bill.

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 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.

Local Fiscal Effect: Pension liabilities for PGUs are not affected for the same reasons that State pension liabilities do not increase.

Additional Information

Prior Introductions: None.

Cross File: HB 84 (Delegate Griffith)(Chair, Joint Committee on Pensions) - Appropriations.

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

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