

Department of Legislative Services
Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 581

(Delegate B. Barnes)(Chair, Joint Committee on
Pensions)

Appropriations

Budget and Taxation

State Retirement and Pension System - Reemployment of Ordinary Disability
Retirees - Earnings Limitation

This bill exempts retirees of the State Retirement and Pension System (SRPS) who are receiving an ordinary disability benefit from a reduction to their allowance if they are reemployed with a participating employer and their average final compensation (AFC) at the time of retirement was less than \$25,000.

The bill takes effect July 1, 2016.

Fiscal Summary

State Effect: No discernible effect on State pension liabilities or contribution rates, as explained below. No effect on revenues.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: Prior to reaching normal retirement eligibility, a member of SRPS is eligible for one of two types of disability benefits:

- **ordinary disability**, if the member is mentally or physically incapacitated for the further performance of the normal duties of the member's position, the incapacity is likely to be permanent, and the member has five years of eligibility service; or

- **accidental disability**, if the member is totally and permanently incapacitated for duty as the natural and proximate result of an accident that occurred in the actual performance of duty at a definite time and place without willful negligence by the member (except for the Law Enforcement Officers' Pension System (LEOPS), as explained below), the member is mentally or physically incapacitated for the further performance of the normal duties of the member's position, and the incapacity is likely to be permanent. There is no minimum service requirement for accidental disability.

For LEOPS, an accidental disability need only *arise out of* the actual performance of duty (*i.e.*, it need not occur at a specific time and place). Instead of an accidental disability, members of the State Police Retirement System are eligible for a "special disability," in which, like LEOPS, the incapacity need only arise out of the actual performance of duty.

Reemployment of Disability Retirees: SRPS retirees who are receiving either an ordinary, accidental, or special disability benefit may be reemployed by a participating employer, subject to compensation caps. A disability retiree may have the disability allowance suspended if the retiree:

- is not eligible for a normal service retirement;
- began receiving a disability allowance on or after July 1, 1998; and
- is employed by a participating employer at an annual compensation that is at least equal to the retiree's AFC.

This provision does not apply to specified retired law enforcement officers who are reemployed in nonlaw enforcement positions, as defined in statute. (The bill does not affect possible suspension of disability benefits.)

SRPS retirees receiving an ordinary disability benefit are subject to a reduction to their allowance if:

- the retiree is younger than normal retirement age;
- the medical board certifies that the individual is employed by a participating employer at an annual compensation that is greater than the difference between (1) the retiree's allowance at retirement and (2) the retiree's AFC plus \$5,000;
- the SRPS Board of Trustees agrees with the medical board's report; and
- the allowance has not been suspended as described above.

These provisions also do not apply to specified retired law enforcement officers who are reemployed in nonlaw enforcement positions, as specified in statute.

The amount of the benefit reduction varies with the duration of the retiree's disability. Benefit payments for retirees who have been receiving an ordinary disability allowance for less than 10 years are reduced by \$1 for every \$2 that a retiree's compensation exceeds the limit established above. Benefit payments for retirees who have been receiving an ordinary disability allowance for at least 10 years are reduced \$1 for every \$5 that the retiree's compensation exceeds the same limit.

Background: The bill exempts disability retirees whose AFC at the time of retirement was less than \$25,000 from the benefit reductions, as discussed above. This legislation was proposed by the State Retirement Agency (SRA) to the Joint Committee on Pensions. In its justification, SRA noted that statute exempts normal service retirees (except retirees of LEOPS and the State Police Retirement System) who are reemployed with the same participating employer from which they retired from a benefit offset if their AFC at the time of retirement was less than \$25,000. Therefore, the agency recommended providing the same exemption to ordinary disability retirees, and the Joint Committee on Pensions agreed to sponsor the legislation.

State Fiscal Effect: SRA advises that fewer than 10 retirees receiving an ordinary disability allowance are subject to a benefit offset each year. Moreover, the system's actuary has previously advised that it does not account for foregone offsets in valuing the system's assets and liabilities. The combination of a limited number of affected retirees and the fact that foregone offsets have no effect on the system's financial position mean that the bill has no discernible fiscal effect on State pension liabilities and contribution rates.

Additional Information

Prior Introductions: None.

Cross File: SB 477 (Senator Peters)(Chair, Joint Committee on Pensions) - Budget and Taxation.

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

Fiscal Note History: First Reader - February 12, 2016
mel/rhh Revised - House Third Reader - March 21, 2016

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