Department of Legislative Services

Maryland General Assembly
2020 Session

FISCAL AND POLICY NOTE
Enrolled - Revised

Senate Bill 489 (Senator Peters)
Budget and Taxation Appropriations

Employees' and Teachers' Retirement and Pension Systems – Reemployment – Clarification

This bill clarifies the conditions under which specified retirees of the Employees' and Teachers' Retirement and Pension Systems are not subject to a benefit reduction if they are reemployed by a unit of State government. **The bill takes effect July 1, 2020.**

Fiscal Summary

State Effect: None. The bill is largely clarifying and procedural in nature and has no material effect on State governmental finances or pension liabilities.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: Chapter 469 of 2018 specified that a retiree of the Employees' Retirement System, Teachers' Retirement System, Employees' Pension System, or Teachers' Pension System who is reemployed by the State is exempt from a benefit reduction in current law if compensation for the retiree's new job does not include any State funds. This bill clarifies that "State funds," as referenced by Chapter 469, include any fees or penalties collected or received by a State agency.

The bill also adds another condition to the exemption created by Chapter 469, specifying that the new position into which the retiree is hired must be fully funded by a grant from a non-State source that specifically requires the use of the grant funds to pay the full amount of the compensation for the position. To establish that an individual's compensation from the current employer does not include any State funds, the employer must provide the State Retirement Agency with specified documentation. A block grant or matching grant may not be used to satisfy this requirement.

Current Law: In general, retirees of the State Retirement and Pension System who receive a retirement benefit from the State may be reemployed, except that they may not be reemployed by the State or any participating employer in SRPS within 45 days of retiring. In most cases, benefits paid to reemployed retirees are subject to a reduction if they are rehired by the same employer for whom they worked at the time of their retirement. The purpose of the reduction is to ensure that a retiree does not earn more in retirement than the retiree earned as an active member with the same employer. For members who retire directly from State service, the State is regarded as a single employer, so reemployment with any State agency activates the benefit reduction, which 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).

Additional Information

Prior Introductions: None.

Designated Cross File: None.

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

Fiscal Note History: First Reader - February 4, 2020
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