

Department of Legislative Services
Maryland General Assembly
2013 Session

FISCAL AND POLICY NOTE

House Bill 258
Appropriations

(Delegate Rosenberg, *et al.*)

Budget and Taxation

Task Force to Study Phased Retirement for Maryland State Employees

This bill establishes a Task Force to Study Phased Retirement for Maryland State Employees to study and make recommendations regarding a phased retirement option for State employees. The task force is staffed by the Department of Budget and Management (DBM) and the State Retirement Agency (SRA). Members of the task force are not compensated but may be reimbursed for their expenses. The task force must report its findings and recommendations to the Governor and General Assembly by December 1, 2013.

The bill takes effect July 1, 2013, and terminates June 30, 2014.

Fiscal Summary

State Effect: Any expense reimbursements for task force members are expected to be minimal and reimbursable within existing budgeted resources. DBM and SRA can staff the task force with existing budgeted resources. No effect on revenues.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: There are no provisions in State law that allow phased retirements for State employees.

A Deferred Retirement Option Program (DROP) is available to members of the State Police Retirement System (SPRS) and the Law Enforcement Officers' Pension System (LEOPS). DROP allows retirement-eligible SPRS and LEOPS members to officially retire while continuing to work and earn salary and health benefits in their current jobs for up to either four (SPRS) or five (LEOPS) years.

During their participation in DROP, members earn the same retirement benefits that they would have received if they had fully retired, including cost-of-living adjustments. Those benefits are deposited into DROP accounts and earn 4% interest, compounded annually. During their participation in DROP, members do not earn service credit and do not make employee pension contributions. Also, their compensation earned while participating in DROP is not used in determining their average final compensation for the purpose of calculating their normal retirement benefits. There are currently 131 SPRS members and 166 LEOPS members in DROP.

In general, retirees who receive a retirement benefit from the State may be reemployed. Subject to limited exceptions, however, their benefit payment is subject to a reduction if they are rehired by the same employer for whom they worked at the time of their retirement. 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 at retirement].

Background: Although there is no single definition of phased retirement, it generally relates to the ability of a retirement-eligible employee to remain working in his or her same job on a part-time basis and receive regular compensation for the time spent working while also collecting prorated retirement benefits. In many cases, these employees may continue to earn service credit for their part-time employment even though they are also receiving prorated retirement benefits for their accumulated service.

Federal legislation was enacted authorizing the use of phased retirement for federal employees in 2012, but the federal Office of Personnel Management has not yet implemented the program or issued regulations. The National Conference of State Legislatures is aware of just two states that allow phased retirement for their state employees: Minnesota and Florida. In Minnesota, state agencies have discretion to offer phased retirement to eligible employees, but they are not required to do so. In Florida, only public university faculty members are eligible for phased retirement.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland State Retirement Agency, National Association of State Retirement Administrators, National Conference of State Legislatures, U.S. Office of Personnel Management, Public Employees' Retirement Association of Minnesota, Department of Legislative Services

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mc/rhh

Analysis by: Michael C. Rubenstein

Direct Inquiries to:
(410) 946-5510
(301) 970-5510