

Eastern Shore Superintendents

Position Paper #9: **Maryland Pension Benefits for School Personnel**

An essential factor affecting school system recruitment and retention is the adequacy of the pension benefit for retired teachers, administrators, and support personnel provided by the State of Maryland.

When the Maryland Teachers' Pension System was established in 1980, it was a non-contributory system that linked the benefit structure to the Social Security Integration Level (S.S.I.L.). The SSIL is the average of the annual Social Security wage base for the 35 years prior to the year of retirement. In 1998 the Maryland General Assembly improved the teachers' pension program by adding a 2% employee contribution, eliminating the use of the SSIL, and increasing the percentage applied to the AFS for years of service. The annual (up to 3%) cost of living adjustment (C.O.L.A.) applied to the pension benefit was also improved to include compounding, instead of an increase based only on the first year's pension allowance.

During the 2006 Legislative Session, improvements were made to the multiplier used to calculate the benefits and it was applied retroactively to all service earned since 1998. The employee contribution will be increased over three years to 5% of salary. As a result of these improvements, Maryland's relative position among the states will also improve. Teachers and other school system personnel can now expect to receive up to 54% of final salary upon retirement after 30 years.

Given the value of the increased benefits as compared to states that surround Maryland, additional improvements will need to be made to remain competitive when recruiting and retaining new teachers.

Recommendations:

Maryland school system employees should receive retirement benefits equal to or greater than benefits provided by neighboring states.

1. The annual COLA adjustment should be revised to assure that the original purchasing power of the pension benefit is maintained over time. A cap on the COLA does not accomplish that end.
2. Although there were some recent changes made to the rules for purchasing prior service credit, additional changes should be adopted that provide more flexibility without impacting state costs.
3. Pension benefits should be exempt from State income tax, as in some other neighboring states.
4. Pension benefits should be based on all compensation received.
 - o Extra duty pay
 - o National teacher certification
 - o Bonuses
 - o Stipends
5. Penalties for early retirement should be actuarially based.
6. The calculation of sick leave benefits should provide full credit for employees who work more than ten months per year.
7. A Deferred Retirement Option Plan (DROP) should be adopted for school system employees.