

Analysis of the Impact of the Earnings Limitation on the Recruitment and Retention of Nurses in Community Colleges

Prepared By:

Maryland Higher Education Commission
Division of Finance Policy

As Requested by
The Senate Budget and Taxation Committee and
The House Committee on Appropriations

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Kevin M. O'Keefe
Chairman

Calvin W. Burnett
Secretary

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Table of Contents

Background.....	3
Analysis.....	4
Context and Scope	4
Nursing Program Capacity Study Required by SB 511	4
Outcomes from Similar Legislative Actions.....	5
Recommendation	6
Table I: Number of Nursing Faculty Required to Replace Retirees.....	7
Table II: Fiscal and Policy Notes: Retired Teachers and Principals and DHMH Healthcare Employees Earnings Limitation Exception	8
Table III: Retired Teachers and Principals Reemployed Under Chapter 518 of 1999, Chapter 245 of 2000 and Chapter 732 of 2001	9
Table IV: Retired Nurses Reemployed by the DHMH.....	10
Appendix A: Reference List	11

The 2005 Joint Chairman's report requires the Maryland Higher Education Commission (MHEC) to prepare a study for the Joint Pension Committee on the impact of the retirement earnings limitation on the ability of community colleges to recruit and retain nursing faculty. The language of the Committee narrative is as follows:

R62100.05 The Senator John A. Cade Funding Formula for the Distribution of Funds to Community Colleges.

Add the following language to the general fund appropriation:

, provided that the Maryland Higher Education Commission is directed to prepare a study of the impact of the retirement earnings limitation on the ability of community colleges to recruit and retain nursing faculty, including the fiscal impacts for the State budget. This report should be submitted to the Joint Pension Committee by September 1, 2005 for interim study in preparation for the 2006 legislative session.

The due date for this report was extended to November 1, 2005 upon the request of the Maryland Higher Education Commission.

This report addresses the committees' request through the examination and synthesis of several information sources. Context and scope of the issue are provided via a summary of state, national and regional level studies related to projected nursing faculty shortages. The results of a MHEC phone survey of nursing program directors, which is part of an ongoing comprehensive study on the demand for and capacity of nursing programs are discussed. The capacity study was initiated in response to enrolled Senate Bill 511 during the 2005 session. Fiscal and Policy notes published in 2005 by the Department of Legislative Services regarding the impact of the reemployment of retired teachers and healthcare workers provides insight into outcomes associated with exemptions to the earnings limitation.

Background

During the 2005 session, the Maryland General Assembly expressed concern over the impact of the earnings limitation on the recruitment and retention of nursing faculty in community colleges. Language was written into the Cade Funding Formula charging MHEC to conduct a study of this issue. The current and projected statewide shortage of qualified nurses is the catalyst for this request. Community colleges play an important role in preparing students for careers as Licensed Practical Nurses (LPN) or Registered Nurses (RN). Active measures have been undertaken to increase enrollments in nursing programs in community colleges, however, the limited number of qualified nursing faculty to teach in lecture and clinical settings is an impediment to further enrollment growth. A possible recruiting pool for additional faculty may be retired nursing faculty from state four or two-year institutions or nursing professionals retired from the Department of Health and Mental Hygiene (DHMH).

Sections 22-406 and 23-407 of the State Pension Article in the *Annotated Code of Maryland* subject state employees who receive a service retirement allowance or vested allowance and

return to employment with a participating employer of the State Retirement and Pension System to an earnings limitation. If the earnings limitation is exceeded, benefits are reduced dollar for dollar by the amount of earnings that exceed the difference between the average final salary (calculated using the last three years of salary) and the basic allowance (approximately 40% of the average final salary) at the time of retirement. For example, a retiree with a final average salary of \$50,000 who receives a \$20,000 pension benefit may earn up to \$30,000 without loss of benefits (average final salary – pension benefit). Earnings over \$30,000 result in a dollar for dollar loss of the pension benefit. If the reemployed retiree in the example above earned \$35,000, pension benefits would be reduced to \$15,000.

Analysis

According to staff at the State Retirement Agency, state employee retirement information is compiled by institution but does not differentiate between employee types (e.g. faculty, administrative support staff). In order to accurately forecast retirement trends, nursing faculty interest in post retirement employment and fiscal impact, as requested in the Joint Chairman's report, data needs to be collected from each institutions' personnel records and projections made with actuarial assistance. Surveying of retired and near retirement faculty is necessary to determine interest in returning to full time employment. This entails a costly and time intensive study that would take approximately one year to complete.

However, there are a number of existing studies and reports that were examined to respond to the Committees' charge in a timely fashion and which substantially inform the issue. Furthermore, MHEC has been simultaneously charged in Senate Bill 511 to conduct a comprehensive study including two- and four-year institutions to review the demand for and capacity of nursing programs in the state. Community college teaching resources are part of the state capacity question.

The following analysis is structured into three parts. A review of state, regional and national reports set a context for and the scope of the nursing faculty recruitment and retention issue. Data collected to date and plans for the nursing capacity study are discussed. Finally, the impact of similar earnings limitation exemption bills for teachers and healthcare workers in the state system as reported in DLS Fiscal and Policy Notes are reviewed.

Context and Scope

Studies conducted by the Maryland Hospital Association (MHA), the Maryland Association of Community Colleges (MACC) and MHEC were reviewed. The MHA reported a nine percent RN vacancy rate or 1,500 vacancies in 2004. MACC projects that Maryland will need 15,000 nurses by 2010 and that approximately 50% of the new hires will be trained in community college nursing programs. An estimated 84% of the new positions will not require educational credentials beyond an Associates Degree. In a 2004 study, Maryland community colleges anticipated a total of 56 faculty replacements to accommodate retirements in the next five years. That number grew to 68 by 2014 but also included modest growth (Table I). MHEC reported 988 Masters degrees and 136 Doctoral degrees awarded in the health professions in 2003. However, no discipline specific breakouts were readily available. Graduate degree enrollments are

important to note as nursing faculty must hold a minimum of a Masters degree except in certain cases as approved by the Maryland Board of Nursing.

National studies conducted by the American Association of Colleges of Nursing (AACN) and compiled in the *2003 Nursing Faculty Fact Sheet* showed that 65% of nursing programs cited faculty shortages as the primary reason for turning away qualified applicants. They also reported an average faculty vacancy rate of nine percent, a median nursing faculty age of 51.5 years and an average retirement age of 62.5 years. A 2002 AACN study indicated that six percent of healthcare faculty retirees continued teaching on a part time basis. In a 2004 study conducted by the Southern Regional Education Board, only 8% of nursing graduates were prepared as nursing educators. Maryland institutions were participants in all these studies. In summary, national and regional studies indicate an aging nursing faculty with some limited interest in returning to part time employment, and a small pool of students in training for faculty positions. See Appendix A for a complete reference list of the studies mentioned in this section.

Nursing Program Capacity Study as Required in SB 511, 2005 Session

Senate Bill 511 requires MHEC, in collaboration with the State Board of Nursing, to ‘*review the demand for and capacity of nursing programs in the State and the availability of financial aid and other incentives, etc.*’ In accordance with that charge, MHEC surveyed nursing program directors by phone to develop questions for a more comprehensive written survey. Nursing program directors were asked a series of questions including identification of the resources needed to expand enrollments. Program directors cited nursing faculty shortages more frequently than other resource limitations. They also cited inadequate facilities and clinical sites as barriers to expansion. Nursing, unlike many educational programs, requires a low student to teacher ratio, particularly for clinical supervision where an eight to one ratio is considered the norm. Directors had mixed responses when asked if allowing retired employees to work without a benefits reduction would help increase faculty numbers. Program directors were skeptical about retiree interest in returning to full time positions, whether retirees would take teaching assignments in physically demanding clinical instruction where the highest need exists, or if retirees possessed the current knowledge and skills needed by educators. Directors identified the following strategies for increasing nursing faculty: providing incentives for part time faculty to obtain higher level degrees, increasing nursing faculty salaries, actively promoting nursing education as a career option, and recruiting faculty from health services/practitioners.

Impact of Similar Bills for Teachers and Healthcare Workers: Fiscal and Policy Notes Review

The Department of Legislative Services (DLS) authored Fiscal and Policy Notes for House Bill 1347 and Senate Bill 663 in 2005. These bills extended an exemption to the earnings limitation for reemployed retired teachers and principals under certain conditions. The number of principals and teachers opting for retirement at the first year of eligibility rose by an average 7.7% for the teacher’s retirement system and 11.5% for the teacher’s pension systems from 1998 to 2002 while the original law was in effect (Table II). Over three thousand retired teachers were rehired over the five-year period (Table III). The DLS suggested that the rise in opting into retirement at first year of eligibility was due in part to the retirement earnings exemption and estimated increased pension liabilities of \$47.4 million (annualized at \$2.8 million in 2007). Employees

who retire earlier contribute less to the pension system while collecting benefits longer. However, no statistical relationship between first year eligibility retirees and rehires was explored.

The DLS authored Fiscal and Policy Notes for the 2005 House Bill 758 and Senate Bill 520. These bills extended an exemption to the earnings limitation for retired then reemployed DHMH healthcare employees. In contrast to a similar exemption for teachers and principals, DHMH showed declines in the percentage of employees electing retirement at the first year of eligibility of – 4.2% for the retirement system and –1.5% for the pension system in average annual change (Table II). A total of 71.75 nurse FTEs (176 employees) were rehired under the exemption between 2002 and 2004 (Table IV). The DLS projected a minimal increase in patterns of retirement behavior for this group.

It is difficult to predict whether nursing faculty retirement patterns will follow the teachers' or the healthcare workers' pattern if an earnings limitation exemption is made. However, it is worth noting that DHMH retired nurses appear to be more likely to return in a part time capacity (Table IV). This pattern of behavior among nurses corroborates MHEC phone survey data suggesting nursing faculty may not be interested in full time positions and AACN findings that six percent of retired faculty in the health professions return to teaching part time. The state 'retiree recruiting pool' for community college nursing faculty is most likely composed of DHMH nurses and faculty from community colleges or the University System of Maryland. It is quite possible that offering qualified retirees an earning limitation exemption for nursing faculty positions will compete with the DHMH's retiree recruitment pool.

Recommendation

The following conclusions may be drawn from the information reviewed. Granting exceptions to the earnings limitation for those in the teaching profession appears to encourage earlier retirement. The case was not as clear for healthcare professionals. This difference in retirement and reemployment patterns may be related to more intense physical demands in clinical settings as indicated in comments from nursing program directors. As a result, the demand for full time nursing faculty might be minimally met at best through an earnings limitation exemption. On the other hand, it would not be detrimental and would be likely to create minimal fiscal impact. Retired nursing professionals and nursing faculty are more inclined to return to work on a part time basis rather than full time basis. MHEC's preliminary research as part of the nursing capacity study indicates other strategies may be more effective in increasing nursing faculty ranks.

**Table I. Number of Nursing Faculty Required to Replace Retirees – 2004 Survey
Conducted by the Maryland Association of Community Colleges**

Community College	Five Years	Ten Years	Comments
Alleghany	2	7	to maintain capacity
Anne Arundel	3	3	to maintain capacity
Carroll	3	5	currently searching for 3, will need 2-4 more to increase capacity
Cecil	3	5	
Chesapeake	don't know	don't know	
College of Southern Maryland	7	4	to maintain and grow
Baltimore County	7	don't know	7 retirements, no funds to increase full time faculty
Frederick	4	5	maintain and grow
Hagerstown	3	5	maintain and grow
Harford	3	10	to maintain current capacity
Howard	3	7	to maintain current capacity
Montgomery	8	7	to double capacity in RN program
Prince George's	6	4	6 replacements in five years, 2 retirements, 2 new positions in 10 years
Wor-Wic	4	6	to maintain current capacity
<i>Total</i>	<i>56</i>	<i>68</i>	<i>with only limited growth</i>

Notes:

Survey completed Fall 2004.

Baltimore City Community College did not participate.

Garrett College does not have a nursing program.

Source: Maryland Association of Community Colleges (2005, August). *Addressing the nursing faculty shortage: A white paper for community college presidents.* (Available from the Maryland Association of Community Colleges, 60 West Street, Suite 200, Annapolis, MD 21401).

**Table II. Percentage of Members Electing Normal Retirement at First Year of Eligibility
1999 – 2002**

	1998	1999	2000	2001	2002	Annual Average Change
Teachers' Retirement System	25.0%	28.4%	31.1%	33.5%	33.6%	+ 7.7%
Teachers' Pension System	15.2%	18.8%	21.2%	25.5%	23.5%	+ 11.5%
Employees' Retirement System	27.5%	27.9%	23.5. %	24.0%	23.2%	- 4.2%
Employees' Pension System	21.8%	25.0%	25.7%	26.4%	20.5%	- 1.5%

Source: Excerpt from Fiscal and Policy Notes authored by the Department of Legislative Services for SB 663 and HB 1347. Available online at <http://mlis.state.md.us/#bill>

Table III. Retired Teachers and Principals Reemployed Under Chapter 518 of 1999, Chapter 245 of 2000 and Chapter 732 of 2001

	2000-2001		2001-2002		2002-2003		2003-2004	
Anne Arundel	31	0	34	0	27	0	-	
Baltimore City	34	1	4	1	0	0	-	-
Baltimore County	81	1	48	1	141	16	-	-
Frederick	20	5	29	5	57	0	-	-
Prince George's	467	12	583	12	610	18	-	-
All other systems	54	1	58	1	78	3	-	-
<i>Total</i>	<i>687</i>	<i>20</i>	<i>752</i>	<i>20</i>	<i>913</i>	<i>37</i>	<i>764</i>	<i>10</i>

Source: Excerpt from Fiscal and Policy Notes authored by the Department of Legislative Services for SB 663 and HB 1347. Available online at <http://mlis.state.md.us/#bill>

Table IV. Exemption to the Retirement Earnings Limitation: Retired Nurses Reemployed by the DHMH 2002 - 2004

	Fiscal 2002		Fiscal 2003		fiscal 2004	
	Employees	FTEs	Employees	FTEs	Employees	FTEs
RN	24	9.30	27	9.97	26	11.41
LPN	12	7.23	13	8.03	20	10.65
Community Health Nurse	12	.95	12	4.59	21	9.62
<i>Total</i>	<i>48</i>	<i>17.48</i>	<i>52</i>	<i>22.59</i>	<i>67</i>	<i>31.68</i>

Total retired nurses rehired from 2002 to 2004: 167 or 71.75 FTES

Source: Excerpt from Fiscal and Policy Notes authored by the Department of Legislative Services for SB 520 and HB 758. Available online at <http://mlis.state.md.us/#bill>

APPENDIX A

References

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