HB 266

Department of Legislative Services

Maryland General Assembly
2019 Session

FISCAL AND POLICY NOTE
Third Reader

House Bill 266 (Delegate B. Barnes)(Chair, Joint Committee on Pensions)

Appropriations Budget and Taxation

State Retirement and Pension System - Designated Beneficiary Change - Rescission

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This bill allows specified retirees of the State Retirement and Pension System (SRPS) to rescind a request to change their designated beneficiary before the second monthly allowance is paid (instead of before the first allowance is paid). If a retiree rescinds the change of beneficiary under the bill, the benefit payment amount for the next payment is restored to the amount paid before the change in beneficiary, but no retroactive adjustment will be made. **The bill takes effect July 1, 2019.**

Fiscal Summary

State Effect: Minimal increase in State pension liabilities, as discussed below, and no discernible increase in State pension contributions (all funds). No effect on revenues.

Local Effect: Minimal increase in local pension liabilities for participating governmental units (PGUs), and no discernible increase in local pension contributions for PGUs. No effect on local revenues.

Small Business Effect: None.

Analysis

Bill Summary: The bill applies only to retirees who select Options 2, 3, 5, and 6 (see below).

Current Law: Most SRPS members who file retirement applications may choose from among six alternatives to the basic allowance in order to provide a survivor benefit for a surviving spouse, child, or other beneficiary. The basic allowance provides the maximum unreduced benefit payment to the retiree but offers no survivor benefit, so all payments stop when the retiree dies. In most State plans, retirees who select one of the six survivor options are subject to an actuarially determined reduction in their monthly benefit payments to account for the additional payments that will be made following their death. The allowance reductions are calculated based on the ages of both the retiree and the beneficiary.

The six options are as follows:

- **Option 1** pays the balance of the actuarial equivalent present value of the retiree's basic allowance at the time of retirement in a lump-sum payment to the beneficiary or the retiree's estate.
- **Option 2** provides a 100% joint and survivor benefit in which the beneficiary receives 100% of the reduced benefit payment the retiree had been receiving prior to death.
- **Option 3** provides a 50% joint and survivor benefit in which the beneficiary receives half of the reduced benefit payment.
- **Option 4** pays the balance of the retiree's accumulated contributions at the time of retirement, if any, in a lump-sum payment to the beneficiary or the retiree's estate.
- **Option 5** provides a 100% survivor benefit, except that if the beneficiary predeceases the retiree, the retiree begins receiving the basic allowance (also called a "pop-up" option).
- **Option 6** provides a 50% "pop-up" survivor benefit.

Once a retiree makes a selection of the basic allowance or one of the six options, the selection may not be changed after the first retirement payment is made. However, a retiree may change the designated beneficiary at any time during retirement. The benefit allowance paid is then recalculated to reflect the new beneficiary, and the beneficiary designation may be rescinded only before the first new payment is made.

Background: Changes in the designated beneficiary almost always result in lower monthly payments to the retiree. The State Retirement Agency (SRA) advises that, despite extensive communication with retirees seeking to change their beneficiary, some are taken aback by the amount of the reduction when they receive their first recalculated check. Under current law, they are not permitted to rescind their beneficiary designation after receiving that first payment. As a result, the agency asked the Joint Committee on Pensions

(JCP) to sponsor legislation to allow retirees to rescind their change in beneficiary before receiving a second check, and JCP agreed to do so.

SRA advises that it receives fewer than five requests to rescind a beneficiary change each year.

State/Local Fiscal Effect: In virtually all cases, allowing a retiree to rescind a beneficiary change later than currently allowed results in the restoration of a higher benefit payment, which increases State pension liabilities. Absent the bill, the retiree would have to either maintain the lower benefit level or change the beneficiary again. However, any successive change would lead to another adjusted benefit, this time recalculated from a lower base payment. In either case, the rescission will result in higher benefit payments over the retiree's remaining life. As SRA reports that it receives fewer than five requests to rescind beneficiary changes each year, the bill has only a minimal effect on State and PGU pension liabilities and no discernible effect on State or PGU pension contributions.

Additional Information

Prior Introductions: None.

Cross File: SB 186 (Senator Griffith)(Chair, Joint Committee on Pensions) - Budget and Taxation.

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

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