

**Maryland General Assembly  
Department of Legislative Services**

**Proposed Regulations  
State Retirement and Pension System  
(DLS Control No. 16-054)**

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## **Overview and Legal and Fiscal Impact**

The regulations update the information used to calculate option factors and annuity factors used by the State Retirement Agency related to benefits payable to a retiree of the State Retirement and Pension System (SRPS).

The regulations present no legal issues of concern.

The regulations increase State and local pension liabilities and, therefore, also increase annual State and local employer pension contributions. However, those increases have already been reflected in the most recent actuarial valuations and projections of system liabilities.

## **Regulations of COMAR Affected**

### **State Retirement and Pension System:**

Option and Annuity Tables: Option Factors and Annuity Values:  
COMAR 22.02.01.01 - .05

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## **Legal Analysis**

### **Background**

The most recent experience study conducted by the SRPS actuary found a number of changes to plan provisions and member demographics that warranted updating the factors used to calculate optional forms of retirement allowances that may provide beneficiaries protection after the retiree's death. The new factors reflect current expectations for cost-of-living adjustments, life expectancy, and the mix of males and females electing options. The new factors will be used to calculate optional forms of retirement allowances for retirements that are effective on or after July 1, 2017.

### **Summary of Regulations**

COMAR 22.02.01.01 establishes defined terms for option factors and annuity values under Chapter .01. The regulations also transfer the current provision incorporating by reference the document Option Factors and Annuity Values (*State Retirement and Pension System, State Retirement Agency, August 1995*) to Regulation .02.

Regulation .02 applies to option and annuity factors for retirements effective on or before June 30, 2017. The regulations add references to a document incorporated by reference under the current Regulation .01, as well as a provision regarding law enforcement option factors under the current Regulation .03.

Regulation .03 applies to retirements effective on or after July 1, 2017. Section E establishes the option factors and annuity values. Optional allowances for retirees of the Correctional Officers' Retirement System, Employees' Pension System, Employees' Retirement System, Judges' Retirement System, Teachers' Pension System, and Teachers' Retirement System are calculated using the general option factors under Section E. Optional allowances for retirees of the Law Enforcement Officers' Pension System, Local Fire and Police System, and State Police Retirement System are calculated using the law enforcement option factors under Section E.

The regulations make clarifying changes to Regulation .04, which applies to members of the Legislative Pension Plan.

Regulation .05 clarifies that the State Retirement Agency shall use the age as of the effective date of retirement when determining the applicable option factor or annuity value. Section C. establishes the process for the recalculation of a retirement allowance.

## **Legal Issues**

The regulations present no legal issues of concern.

## **Statutory Authority and Legislative Intent**

The State Retirement Agency cites §§ 20-202, 21-108, 21-110, 21-125, and 21-402 of the State Personnel and Pensions Article as statutory authority for the regulations. Section 20-202 requires an actuarial equivalent to be based on actuarial assumptions adopted by the Board of Trustees. Section 21-108 establishes that the Board of Trustees for the State Retirement and Pension System is responsible for the management, general administration, and operation of the several systems. Section 21-110 requires the board to adopt regulations for the administration of the several systems. Section 21-125 requires the board to designate an actuary to give the board technical advice. Section 21-402(a) requires an optional form of an allowance to be the actuarial equivalent of the basic allowance. Although not cited by the State Retirement Agency, §§ 21-401 and 21-403 provide authority for the regulations. Section 21-401 allows a member to elect an option provided for under § 21-403 instead of the basic allowance. Section 21-403 establishes the alternate payment options a retiree may receive.

With the addition of §§ 21-401 and 21-403, this authority is correct and complete. The regulations comply with the legislative intent of the law.

## **Fiscal Analysis**

The regulations increase State and local pension liabilities and, therefore, also increase annual State and local employer pension contributions. However, those increases have already been reflected in the most recent actuarial valuations and projections of system liabilities.

### **Agency Estimate of Projected Fiscal Impact**

The State Retirement Agency advises that the regulations have no fiscal effect because the changes in the underlying assumptions for the option and annuity factors that are being adopted by regulation have already been reflected in the most recent actuarial valuation of the State Retirement and Pension System (SRPS), as well as in projections of future liabilities that stem from that valuation. The Department of Legislative Services notes that the system's actuary calculates that the new option and annuity factors, slated to take effect on July 1, 2017, result in higher payments to retirees and beneficiaries than would otherwise be made if the current factors remained in place. Specifically, over the next 20 years, which roughly coincides with the remaining amortization period for existing system liabilities, total SRPS payments to retirees and beneficiaries of the Employees' Combined System and Teachers' Combined System increase by \$864.9 million. Similarly, total SRPS payments to retirees and beneficiaries of participating governmental units increase by \$84.5 million over the same time period. These totals do not reflect additional increases for law enforcement retirees and beneficiaries, which are not included in the actuary's analysis. As the updating of annuity and option factors is required by statute (though it has been delayed for approximately three decades), and because the new factors have been reflected in calculations of State and local obligations to SRPS, the Department of Legislative Services concurs with the agency's estimate

### **Impact on Budget**

There is no impact on the State operating or capital budget, as any increases in State pension contributions have already been factored in.

### **Agency Estimate of Projected Small Business Impact**

The agency advises that the regulations have minimal or no economic impact on small businesses in the State. The Department of Legislative Services concurs.

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