

Department of Fiscal Services
Maryland General Assembly

FISCAL NOTE

Senate Bill 145 (Senator Della)
Budget and Taxation

Retirement and Pensions - Workers' Compensation Offset - Payments to Third Parties

This bill provides that retirees receiving an accidental disability retirement benefit from the Maryland State Retirement and Pension System (MSRPS) will not have their benefits reduced when they receive workers' compensation benefits that are reimbursements for legal fees, medical expenses, or other payments made to third parties and not payments to the retiree. Under current law, these expenses may be offset from a member's accidental disability benefit, although under current practice, medical payments are not used to offset such benefits.

Fiscal Summary

State Effect: Minimal indeterminate increase in employer contributions beginning in FY 1999. Revenues would not be affected.

Local Effect: Minimal indeterminate increase in employer contributions for local governments that participate in the MSRPS.

Small Business Effect: None. The bill would not directly affect small businesses.

Fiscal Analysis

Bill Summary: Under current law, the MSRPS reduces, or offsets, its payments for accidental disability benefits by the amount of a workers' compensation award that is paid or payable after the date of retirement. As a practice, the MSRPS does not offset its disability benefit payments for medical expenses. It does, however, offset its benefit payments for legal fees that are paid directly by the Injured Workers' Insurance Fund (IWIF) to attorneys, and other payments to third parties such as investigators. Under the proposal, the MSRPS

would offset the amount of the award, less legal fees, medical expenses, and other payments to third parties that are not paid directly to the retiree. In practice, this means that legal fees, and occasionally other fees paid to third parties, would no longer be offset from the individual's retirement benefit, whereas currently they are offset.

State Expenditures: In calendar 1996, the State Retirement Agency recovered \$516,546 (including estimated medical expenses not currently captured) as an offset of workers' compensation awards reported to the Retirement Agency by IWIF. This recovery came from an estimated 78 retiree accounts. Legal fees paid by IWIF range between 8% and 20% of award amounts. Assuming an average legal fee of 15%, during the same time period, the agency would have offset \$77,482 less if it had not offset for these legal fees. Assuming that this pattern of offsets holds relatively constant over time, benefits paid by the MSRPS would increase by \$77,500 per year. These additional liabilities would be reflected in the system's employer contribution rates. Any resulting increase in State retirement expenditures would be minimal.

Local Expenditures: For those local governments participating in the MSRPS, expenditures will increase by an indeterminate amount because accidental disability benefits will not be reduced by the amount of legal fees paid as a part of a workers' compensation award. The agency was unable to provide figures as to the aggregate, or individual, increase in expenditures for these local governments, but the effect on employer contribution rates is likely to be minimal.

Information Source(s): State Retirement Agency, Injured Workers' Insurance Fund, Department of Fiscal Services

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