

Department of Legislative Services
 Maryland General Assembly
 2001 Session

FISCAL NOTE

Senate Bill 868 (Senator McFadden, *et al.*)
 Budget and Taxation

**Correctional Officers - Payment of Special Death Benefits - Income Tax
 Subtraction Modification**

This pension bill provides a special death benefit for beneficiaries of a Correctional Officers' Retirement System (CORS) member who dies: (1) with more than two years of eligibility service; or (2) arising out of or in the course of the actual performance of duty. The benefit would provide two-thirds of the member's average final compensation (plus accumulated member contributions). The bill also provides a subtraction modification from the State's personal income tax for payments from a pension system to the surviving spouse or other beneficiary of a correctional officer whose death arises out of or in the course of employment as a correctional officer.

The bill takes effect July 1, 2001, and the subtraction modification applies to tax years beginning with calendar 2001.

Fiscal Summary

State Effect: State pension liabilities would increase by \$56.7 million, resulting in increased employer pension contributions (all funds) of \$4.3 million beginning in FY 2003, and increasing 5% per year thereafter based on actuarial assumptions. Income tax revenues (general funds) would decline by at least \$23,400 beginning in FY 2002, increasing cumulatively as the amount of death benefit payments increases.

(\$ in millions)	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
GF Revenue	(\$.02)	(\$.04)	(\$.06)	(\$.08)	(\$.10)
GF/SF/FF Exp.	0	4.29	4.80	5.35	5.94
Net Effect	(\$.02)	(\$4.33)	(\$4.86)	(\$5.43)	(\$6.04)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: Local government revenues would decrease by approximately 2.74% of the total State subtraction.

Small Business Effect: None.

Analysis

Current Law: The beneficiaries of CORS members with one year or more are entitled to a death benefit of a lump sum of one year's compensation plus return of the member's contributions with interest. Alternatively, a surviving spouse may elect to receive an allowance equal to the amount payable under Option 2 if the spouse is the sole primary designated beneficiary and the member was eligible to retire or was at least 55 years old with at least 15 years of eligibility service.

Background: The CORS death benefit is identical to that provided to members of the Employees' Retirement System, the Teachers' Retirement System, and certain members of the Local Fire and Police System. It is similar to that provided to members of the Employees' Pension System and Teachers' Pension System, and certain members of the Local Fire and Police System.

Beneficiaries of members of the Law Enforcement Officers' Pension System (LEOPS) receive one year's compensation (after one year of service). Alternatively, a surviving spouse or children may elect to receive annually 50% of the ordinary disability retirement allowance, if the member had more than two years of eligibility service or with death arising out of or in the course of the actual performance of duty.

Beneficiaries of members of the State Police Retirement System receive one year's compensation (after one year of service). Alternatively, a surviving spouse or children may elect to receive annually 50% of average final compensation, if the member had more than two years of eligibility service or with death arising out of or in the course of the actual performance of duty.

This bill would make the CORS death benefit similar in structure to (but more generous than) the State Police Retirement System special death benefit.

State Expenditures: There are approximately 6,700 active CORS members as of June 30, 2000. Based on existing actuarial assumptions regarding mortality and the bill's additional benefits, the State's actuary informally estimates that system liabilities would increase by \$56.7 million. Amortizing these liabilities over 18 years (through fiscal 2020) would result in additional pension contributions of \$4.3 million in fiscal 2003. Future year payments would increase by 5% per year based on actuarial assumptions.

State Revenues: The bill's subtraction modification would apply to all CORS death benefits paid in a given year, including allowances that accrued prior to the bill's July 1, 2001 effective date but which will be paid annually into the future. Neither the State Retirement Agency nor the State's actuary can provide estimates about the amount of previously accrued CORS death benefits because those benefits are not identified separately from retirement allowances of living retirees or allowances paid to the beneficiaries of deceased retirees. The amount of such existing benefits, however, is assumed to be relatively small. This assumption is based on the current CORS death benefit, which as noted above, provides for an annual allowance only if the deceased member was eligible to retire (based on age or service) at the time of the member's death and that member had designated the member's spouse as the sole beneficiary. In all other instances, the member's beneficiary received a lump sum death benefit, and hence any tax impact has since passed.

For payments of the enhanced benefit -- effective after July 1, 2001 -- there would be a measurable decrease in income tax revenue as a result of the subtraction modification. The State's actuary informally estimates the benefit payment stream under the new provisions to be \$486,800 in fiscal 2002, and increasing cumulatively in future years as new allowances are added each year. Applying an effective tax rate of 4.8% to this amount yields a first year general fund loss of \$23,400, increasing thereafter based on the growth of the benefit payments. This would be in addition to the indeterminate amount of losses for existing benefits discussed above.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Public Safety and Correctional Services; State Retirement Agency; Milliman & Robertson, Inc.; Department of Legislative Services

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