

**Department of Legislative Services**

Maryland General Assembly

2002 Session

**FISCAL NOTE**

House Bill 173

(The Speaker) (Judicial Compensation Commission)

Appropriations

Budget and Taxation

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**Judges' Retirement System - Death Benefits - Multiple Beneficiaries**

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This pension bill allows a retiree of the Judges' Retirement System (JRS) who has no spouse or minor children at the time of retirement and who elects to receive a reduced allowance, to designate multiple beneficiaries to receive a lump-sum payment of any remaining pension balance at the time of the retiree's death. In addition, this bill creates a lump-sum death benefit that would be payable to the member's designated beneficiary or beneficiaries if the member dies prior to retirement and has no surviving spouse or minor children at the time of death.

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**Fiscal Summary**

**State Effect:** State pension contributions to the JRS (general fund) would increase by a minimal amount due to payment of additional active member death benefits.

**Local Effect:** None.

**Small Business Effect:** None.

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**Analysis**

**Bill Summary:** At the time of retirement, if a retiree does not have a spouse or children younger than age 18, the retiree may designate one or more beneficiaries to receive a cash payout at the retiree's death, equaling the excess of the present value of the retirement allowance at the date of retirement minus the total amount of payments made to the retiree as of the date of death. The amount remaining in the retirement reserve is paid to

the retiree's designated beneficiary or beneficiaries in equal shares as a one-time lump sum payment.

For members who die in active service with no surviving spouse or minor children, the member's designated beneficiary or beneficiaries will share equally in a lump sum death payment equaling: (1) the member's accumulated contributions plus interest; and (2) an amount equal to the member's annual salary at the time of death.

**Current Law:** A survivor benefit is paid if a member, former member, or retiree of the JRS dies, regardless of age or service at the time of the member's death. This survivor benefit equals 50% of the full service retirement allowance that would be payable if the member were alive and eligible to receive a retirement allowance. It is paid as an annuity to the deceased member's surviving spouse for life. If there is no surviving spouse at the time of death, the annuity is paid to the member's child or children who are under age 18. If there is no surviving spouse or children younger than age 18, the member's accumulated member contributions plus interest are refunded to the estate.

At the time of retirement, if a retiree is married, the retiree must elect to receive the basic, or maximum, allowance. However, if a retiree does not have a spouse or children younger than age 18, the retiree may elect an optional form of allowance that is actuarially equivalent to their basic allowance. The optional form of allowance provides either a monthly benefit or lump sum payment to the retiree's designated sole beneficiary. If the retiree elects to receive any of the optional forms of allowances, including the lump sum cash payout, the retiree may only designate one beneficiary. In addition, retirees who elect to receive an optional form of allowance may not change their beneficiary once they have made a designation.

**Background:** This bill reflects the pension benefit recommendations proposed by the Judicial Compensation Commission, which is a seven-member commission appointed by the Governor and charged with reviewing and making recommendations on judicial compensation. The commission must review judicial salaries and pensions every two years and must make recommendations to the Governor and General Assembly every four years.

Unlike salary recommendations proposed by the commission that will automatically be adopted on March 7, 2002, if no action is taken by the General Assembly, the recommendations incorporated in this bill will only become effective if passed by both houses and signed by the Governor.

**State Expenditures:** It is estimated that there will be no fiscal impact from the provision of the multiple-beneficiary lump-sum option for retired members, because the total value of the lump-sum payment will not change.

It is estimated that there will be a minimal fiscal impact from the provision of the multiple beneficiary lump-sum death benefit for active members. Under current law, the system pays to the member's estate on behalf of members who have no designated beneficiaries and who die while in active service the return of member contributions plus interest. Under the bill, under the same circumstances, a member could designate multiple beneficiaries who would receive one year's annual salary plus contributions and interest. The Retirement Agency advises that a judge dies during active service approximately once every three to five years. Most such judges, however, will have a surviving spouse and would not invoke the new provision. If a judge were to trigger the new provision, the system would pay the judge's annual salary (currently \$111,420, on average) and would amortize the additional payment over 25 years, resulting in a minimal impact to the JRS.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** SB 171 (The President) (Judicial Compensation Commission) – Budget and Taxation Committee.

**Information Source(s):** State Retirement Agency, Milliman USA, Department of Legislative Services

**Fiscal Note History:** First Reader - January 28, 2002  
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