HB 394

Department of Legislative Services

Maryland General Assembly
2002 Session

FISCAL NOTE

House Bill 394 (Delegate Proctor) (Chairman, Joint Committee on Pensions)
Appropriations Budget and Taxation

State Retirement and Pension System - Optional Forms of Allowance - Designated Beneficiaries

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This pension bill adds a feature to two existing annuity options available to retirees of the State Retirement and Pension System of Maryland (SRPS). The bill permits retired members and future retirees who elected (or will elect) one of the two "pop-up" options (Options 5 or 6) at retirement to designate a new beneficiary at any time after the benefit has "popped up," i.e., when the benefit has increased to the basic allowance following the death of the originally designated beneficiary.

The bill takes effect July 1, 2002.

Fiscal Summary

State Effect: None. When eligible members redesignate a beneficiary, their basic allowance will be actuarially reduced; hence, there would be no increase in net benefit payments and no increase in State pension contributions.

Local Effect: None. When eligible members of participating governmental units redesignate a beneficiary, their basic allowance will be actuarially reduced; hence, there would be no increase in net benefit payments and no increase in pension contributions for employers that participate in the SRPS.

Small Business Effect: None.

Analysis

Current Law: A retiree who elects Option 5 or Option 6 receives a reduced allowance in order to provide a survivor annuity (100% under Option 5 and 50% under Option 6) to a designated beneficiary. These options "pop up," or increase to the basic allowance, if the designated beneficiary predeceases the retiree. At that point, there is no feature permitting a retiree to provide a survivor annuity to a new designated beneficiary. A retiree may deselect a living beneficiary (for reasons such as divorce) and designate a new beneficiary, with an appropriate actuarial adjustment.

Background: This legislation was requested by the Board of Trustees of the SRPS. The board notes that the bill puts retirees: (a) who wish to provide a survivor benefit to their beneficiary; (b) whose original beneficiary dies; and (c) who subsequently elect a new beneficiary, on the same footing as those retirees who change beneficiaries while the original beneficiary is still alive (e.g., due to divorce or other circumstances). Currently, retirees who elect Option 5 or 6 have the benefit reset to the maximum amount in the event of the death of their beneficiary, Under the board's proposal, these retirees could re-designate a new beneficiary with the corresponding actuarial recalculation.

State Expenditures: Under the proposal, when the retiree designates a new beneficiary, the State Retirement Agency will recompute the retiree's allowance, taking into account the ages of the retiree and the new beneficiary and making the appropriate reduction. Hence, there should be no fiscal impact.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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Analysis by: Matthew D. Riven

Direct Inquiries to:
John Rixey, Coordinating Analyst
(410) 946-5510
(301) 970-5510