

Department of Legislative Services
Maryland General Assembly
2003 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 299

(Senator Kasemeyer)

(Chairman, Joint Committee on Pensions)

Budget and Taxation

Appropriations

**Employees' and Teachers' Retirement and Pension Systems - Vested Allowance -
Lump-Sum Payment**

This pension bill gives specified former members of the employees' or teachers' retirement or pension systems the option to receive a one-time lump sum payment equal to the present value of the individual's vested allowance. The former members must be eligible to receive a monthly allowance of less than \$50 in their prior system.

The bill takes effect July 1, 2003.

Fiscal Summary

State Effect: State retirement benefit payments would not be affected. State Retirement Agency administrative expenses (special funds) could decrease by a minimal amount.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: Members of the employees' or teachers' retirement or pension systems who are eligible for a monthly allowance must receive payment in that format, even if the allowance is *de minimis*.

Background: This legislation was requested by the Board of Trustees of the State Retirement and Pension System to address members entitled to minimal benefits. For example, a limited number of higher education employees were previously members of the employees' or teachers' systems and later elected, or later became eligible, to enroll

in the Optional Retirement Program (ORP). If these members transferred to ORP early in their career, they may have accrued a limited benefit in their respective pension or retirement system. Current law allows members who transfer to ORP to immediately vest in their respective State system regardless of the total service credits accrued (versus the normal vesting requirement of five years of service), resulting in a potentially very small monthly allowance at retirement.

Alternatively, the member can opt to receive a refund of the member's accumulated contributions to the member's retirement or pension system, with interest. (In the case of a refund, no credit is given for the employer contributions.) It was the agency's prior practice (for which it is currently authorized under State law) to provide the member's refund of contributions at the time of the transfer out of the pension or retirement systems. Revisions to the federal Internal Revenue Code, however, now preclude the agency from offering a refund of contributions prior to a member's termination of employment. Because there is now little incentive for most members to choose the refund over the allowance, they elect the allowance.

State Expenditures: The retirement agency has identified several hundred vested members who would be affected by the bill. In addition, a small number of future individuals could be affected. Because the lump sum will reflect the net present value of the individual's vested allowance, there should be no actuarial impact from this legislation. In addition, the agency could experience a small administrative savings by removing these small allowances from their retirement benefit payment rolls.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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