

Department of Legislative Services
Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 584 (Senator Kasemeyer) (Chairman, Joint Committee on Pensions)

Budget and Taxation

Appropriations

State Retirement and Pension System - Administration - Simplification

This pension bill clarifies certain purchase of service, termination of membership, and maximum service credit provisions; amends certain annuity payment options and line-of-duty death benefits; and makes technical corrections to the State Personnel and Pensions Article.

The bill is effective July 1, 2005 with certain provisions effective January 1, 2006.

Fiscal Summary

State Effect: The bill would not materially affect benefits or pension system liabilities. State Retirement Agency administrative expenses could decrease minimally.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary/Current Law: The major provisions of the bill that are effective July 1, 2005 are:

- *Purchases of Service – Simplification.* Provisions to purchase service at employee cost and full cost are included in the Employees' Retirement System (ERS), Teachers' Retirement System (TRS), the State Police Retirement System (SPRS), the Correctional Officers' Retirement System (CORS), and the Judges' Retirement

System (JRS). In the Employees' Pension System (EPS), Teachers' Pension System (TPS), the Law Enforcement Officers' Pension System (LEOPS), and the Local Fire and Police System, purchases of service are primarily full cost purchases. If an employee is purchasing service credit at employee cost, the individual is paying the employee contributions with annual interest. However, if the employee is purchasing service credit at full cost, the individual is paying both employee and employer contributions for that service credit.

The bill standardizes the different types of purchases among the various retirement systems. In addition, the bill clarifies that only a member actively participating in a system is entitled to purchase service credit. The bill also clarifies that the purchase of "nonqualified service" is limited to no more than five years to members who enrolled in the State Retirement and Pension System after July 1, 1999. Finally, the bill eliminates a rarely-used payment option for purchase of service credit.

- *Annuity Options – Payments.* The bill amends the provisions that address the payment of benefits following the death of a retiree or beneficiary. Specifically, the bill eliminates prorated payments of a monthly allowance. With respect to a retiree or beneficiary who is receiving a monthly allowance, the bill provides that if the individual dies from the first through the fifteenth day of a month, there would be no final payment. If the retiree or beneficiary dies on or after the sixteenth day, the full monthly allowance would be paid. With respect to a retiree who has selected an optional benefit, if the retiree dies from the first through the fifteenth day of a month, the option payment is effective from the first of that month. If the retiree dies on or after the sixteenth day, the full monthly allowance would be paid with the option selection effective from the month following death of the retiree.
- *Termination of Membership.* The bill standardizes the termination of membership provisions in each system, with the exception of TRS and JRS, to four years. TRS would remain at five years while membership would terminate in JRS when the member left the bench. In addition, the bill defines the term "separation from employment."
- *Maximum Service Credit in a Calendar Year.* The bill provides that members of EPS, TPS, and LEOPS may not earn more than one year of service credit within a calendar year. In addition, the bill clarifies that members who work on a 10-month calendar would receive 1 year of credit for each 10 months of service.

- *State Police – Option Selection.* If, at the time of retirement, a member of the SPRS is married, that member is required to elect the basic service retirement allowance. Under this election, the spouse of the member is entitled to a 50% survivor benefit. If there is no surviving spouse, the survivor benefit is paid to the member's dependent children until the age of 18.

If the member is not married at the time of retirement, the member may either elect the basic service retirement allowance or select one of the optional forms of retirement. If the member elects an optional form of retirement, the member may designate any individual as the member's beneficiary – the member is not required to designate a dependent child as a beneficiary. The bill clarifies that a SPRS member electing this method of retirement is not required to designate the member's dependent child as the member's beneficiary.

- *Unused Sick Leave.* The bill codifies the administrative practice that permits a member who is separated from employment and then applies for retirement within 30 days from termination to retain unused sick leave for purposes of calculating the member's retirement benefit. Currently, State personnel law provides that an employee who terminates employment for reasons other than retirement will lose all accumulated unused sick leave.
- *Special Death Benefit – Law Enforcement Officers' Pension System.* The bill amends the LEOPS line of duty death benefits to include the return of the deceased member's accumulated contributions to the member's designated beneficiary or member's estate. Line of duty death benefits for surviving spouses or dependent children of a deceased SPRS member include a death benefit equal to two-thirds of the deceased member's average final compensation at the time of the member's death. The deceased member's designated beneficiary or the member's estate is also entitled to the deceased member's accumulated contributions. A similar line of duty death benefit is available for surviving spouses and dependent children of deceased members of LEOPS. However, in those instances, the LEOPS provisions do not provide for the return of the deceased member's accumulated contributions. This provision would apply retroactively to July 1, 2004.
- *Governmental Units – Participation.* A governmental unit may join the State Retirement and Pension System at the first of any month during a fiscal year. Participating governmental units, however, may withdraw or transfer to another State system only as of June 30 each year because of funding considerations. The bill provides that for both administrative and funding purposes, eligible

governmental units be permitted to participate as of July 1, the start of a new fiscal year.

- *10-year Earnings Limit Period.* The bill provides that for individuals retiring after January 1 of any year, the period during which retirees would be subject to earnings limitation would be adjusted to nine full calendar years following the retirement date. Currently, the earnings limit is applied to certain retirees if those retirees are reemployed by the employer from which they retired and they have not been retired more than 10 years. State Retirement Agency regulations provide that the 10-year period when retirees are to be subject to the earnings limitation runs for 10 years from January 1 of the calendar year following the date of retirement, or, if retiring January 1, from the date of retirement. Accordingly, the 10-year period would be delayed for any retiree who retired in any month other than January, resulting in a period of up to 10 years and 11 months when the earnings limitation is applied.
- *Separation before Reemployment.* The bill provides that an individual receiving a service retirement allowance from a unit of State government or a participating governmental unit may return to work with the State or participating governmental unit only after a 45-day separation period.
- *Application for Disability.* The bill standardizes across systems the time span during which an individual may apply for ordinary or accidental disability retirement. An individual may submit an application for disability retirement within four years of ending paid employment. An individual may have an additional 24 months to apply for disability retirement if the individual proves to the medical board that failure to submit an application was attributable solely to physical or mental incapacity during the filing period.
- *16-year Rule of Deputy Clerks of Court.* The bill clarifies that an individual is eligible for the “16-year rule” if the individual: (1) is employed as a deputy clerk of the court at the time of retirement; and (2) was initially a deputy clerk of the court before July 22, 1981.

A member of the employees’ retirement and pension systems who retired under the so-called “16-year rule” is eligible to receive a benefit based on years of service and average final compensation, with no early retirement reduction, so long as the member has 16 years of service. The “16-year rule” applies to elected or appointed officials and employees in specified positions who are separated from employment involuntarily. Although the rule is no longer in effect for new

employees, members in such positions prior to June 30, 1982 are still subject to its provisions and hence are not subject to an early retirement reduction.

The State Retirement Agency advises that it is aware of only one individual who would be eligible for retirement under this provision of the bill.

The major provision of the bill effective January 1, 2006 is:

- *Purchases of Service – Simplification.* Within the State pension laws, there are many references to certain groups of employees that no longer exist and provisions that include references to specific periods of employment from the 1970s that are antiquated. The bill removes these provisions from the code.

Background: The Joint Pension Committee provides the Board of Trustees of the State Retirement and Pension System the opportunity to request simplification legislation for the administration of the various State pension systems each year.

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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