SB 664

Department of Legislative Services

Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 664 (Senator Kasemeyer)
(Chairman, Joint Committee on Pensions)

Budget and Taxation Appropriations

State Retirement and Pension System - Optional Retirement Allowances - Designated Beneficiaries

---

This pension bill provides that, in order to conform to changes in federal tax law, a member who retires on or after January 1, 2006 and elects a 100% survivor benefit under certain retirement options is prohibited from designating a nonspouse as a beneficiary, if the nonspouse is more than 10 years younger than the member. Additionally, the bill repeals a retirement option which permits a retiring member to "personalize" the retirement allowance if actuarially certified, and approved by the board of trustees.

The bill is effective July 1, 2005.

Fiscal Summary

State Effect: The bill would not materially impact State pension liabilities or contribution rates.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: A retirement reserve is established for each member who retires. This reserve is the amount needed, with interest, to pay for the member's normal retirement allowance. When an option is chosen, the retirement reserve does not change. However, the member's normal service retirement allowance is reduced by an actuarially determined factor to provide a potential death benefit for the member's designated beneficiary. There are seven optional forms of payment:

- Option 1 provides a cash payout to the designated beneficiary or the retiree's estate in an amount equal to the excess of the present value of the retirement allowance at the date of retirement minus the total amount of payments (less cost-of-living adjustments) made to the date of death. The amount remaining in the retirement reserve is paid to the designated beneficiary or estate as a one-time lump sum payment.

- Option 2 provides a 100% joint and survivor annuity, which means that upon the death of the retiree the entire monthly payment continues to be paid to the beneficiary for the remainder of the beneficiary's life.

- Option 3 provides for a 50% joint and survivor annuity, which means that upon the death of the retiree half of the monthly benefit continues to be paid to the beneficiary for the remainder of the beneficiary's life.

- Option 4 guarantees a minimum return of the member's accumulated contributions by providing that if the retiree dies prior to receiving all employee contributions with interest, the balance will be paid in a lump sum to the designated beneficiary.

- Option 5 provides a 100% survivor pop-up. Upon the death of the retiree, the designated beneficiary is paid the retiree's entire allowance for the remainder of the beneficiary's life. However, if the beneficiary predeceases the retiree, the retiree may designate a new beneficiary or else the retirement allowance will pop up to the retiree's maximum allowance, in which case all payments cease at the death of the retiree.

- Option 6 provides a 50% survivor pop-up. Upon the death of the retiree, the designated beneficiary is paid one-half of the retiree's allowance for the remainder of the beneficiary's life. However, if the designated beneficiary predeceases the retiree, the retiree may designate a new beneficiary or else the retirement allowance will pop up to the retiree's maximum allowance, in which case all payments cease at the death of the retiree.

- Option 7 permits an alternative monthly allowance to a surviving beneficiary that is actuarially equivalent to the retirement allowance and is approved by the board of trustees.

Background: The Internal Revenue Service (IRS) recently finalized § 401(a)(9) regulations, under which a plan cannot provide a 100% survivor benefit to an employee's nonspouse beneficiary under a joint and survivor annuity if the beneficiary is more than 10 years younger than the employee. The intent is to ensure that a retiree receives more than 50% of the total value of the retiree's benefit over the retiree's life.

State Fiscal Effect: In response to the new IRS regulations, the bill repeals Option 7, in that with actuarial approval, a personalized benefit could be structured such that the retiree's beneficiary was paid more than 50% of the total value of the retirement benefit. This would contravene the regulations. A retiree would have to choose from one of the remaining retirement options. The provisions of the bill would not affect State pension liabilities or contribution rates.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - February 23, 2005
mam/jr Revised - Senate Third Reader - March 23, 2005

Analysis by: Martin L. Levine

Direct Inquiries to:
(410) 946-5510
(301) 970-5510