

Department of Legislative Services
Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 412

(Senator Kramer) (Chair, Joint Committee on Pensions)

Budget and Taxation

Appropriations

State Retirement and Pension System - Compliance with the Federal Pension
Protection Act of 2006

This bill amends provisions of State pension law related to rollovers of pension distributions to conform to the requirements of the federal Pension Protection Act (PPA) of 2006. Certain provisions of the bill apply retroactively to comply with the terms of the federal Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001.

The bill is effective July 1, 2007.

Fiscal Summary

State Effect: None. State Retirement and Pension System (SRPS) finances would not be affected. The bill affects only surviving beneficiaries of the system.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: Only employers who adopt a resolution and follow procedures prescribed by the board may participate in the employer pickup option.

After January 1, 2002, a surviving spouse may request that a lump sum distribution of the balance to the credit of a member, former member, or retiree be rolled over directly into an IRA or other eligible retirement plan. This provision applies retroactively to January 1, 2002.

After January 1, 2007, any designated beneficiary may request that a lump sum distribution of the balance to the credit of a member, former member, or retiree be rolled over directly into an IRA or other eligible retirement plan.

Current Law: To qualify as an “approved employer” for the purpose of picking up employee contributions, an employer must receive a favorable ruling from the Internal Revenue Service to operate an employer pickup option.

Only members or former members can designate that a lump sum distribution of all or any part of the balance to their credit can be rolled over into an IRA or other eligible retirement plan.

Eligible retirement plans include:

- IRAs;
- individual retirement annuities under Section 408(b) of the Internal Revenue Code (IRC);
- qualified trusts under IRC Section 401(a);
- annuity plans under IRC Section 403(a);
- annuity plans under IRC Section 403(b); and
- deferred compensation plans under IRC Section 457.

Background: Under certain circumstances, members, former members, and beneficiaries may receive lump sum distributions from SRPS instead of monthly benefit payments. SRPS members who leave the system before vesting (typically with fewer than five years of service credit) are entitled to lump sum refunds of their accumulated employee contributions, with interest. Surviving spouses of SRPS members who are killed in the line of duty or die with at least one year of service credit are entitled to a lump sum death benefit payment whose amount varies by plan and circumstances. In the case of retirees, when a member retires, the system establishes a retirement reserve that includes the amount needed, with interest, to pay for the retiree’s normal retirement allowance. The retiree selects from among six payment options. Depending on the option selected, a designated beneficiary may be entitled to a lump sum payment of the funds credited to the retiree in the retirement reserve when the retiree dies.

Under limited circumstances, State law allows surviving spouses of active members to opt for a lifetime retirement annuity instead of a lump sum death benefit, but it does not allow the spouse to roll over the lump sum into a tax-free retirement account (such as IRAs). EGTRRA allowed for such rollovers, but State law was never updated to expressly allow it. PPA expanded the rollover allowance by including designated beneficiaries who are not spouses.

The Maryland Teachers' and State Employees' Supplemental Retirement Plan operates four tax-sheltered deferred compensation and annuity savings plans for State employees. The four plans allow State employees to deduct pre-tax contributions to the plans from their paychecks. The State provides a \$600 dollar-for-dollar match, subject to annual authorization in the State budget. The match was suspended in fiscal 2004 and 2005, and was funded at only \$400 per participant in fiscal 2006. It has been restored to full funding in fiscal 2007. In fiscal 2006, the plans had a combined total of 59,022 members, of whom 40,869 were actively deferring to their accounts. The four plans available to State employees are:

- a deferred compensation plan under IRC Section 457;
- a tax-deferred annuity plan for State employees working in educational institutions under IRC Section 403(b);
- a savings and investment program under IRC Section 401(k); and
- the employer matching plan under IRC Section 401(a).

The employer pickup option allows employees to make contributions to a contributory pension system on a pre-tax basis. However, the tax benefits of the pickup option apply only to federal income taxes; employee pension contributions count toward gross income for the purposes of Maryland income taxes.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Mercer Human Resources Consulting, Maryland State Retirement Agency, Department of Legislative Services

Fiscal Note History: First Reader - February 6, 2007
nas/jr Revised - Senate Third Reader - March 21, 2007

Analysis by: Michael C. Rubenstein

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