HB 533

Department of Legislative Services

Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE

House Bill 533 (Delegate Proctor)
Appropriations

State Retirement and Pension Systems - Optional Forms of Retirement - Selections

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This bill allows members of the State Retirement and Pension System (SRPS) who retired before July 1, 1989 and selected a 100% survivor benefit (Option 2) at the time of retirement to change to a 100% survivor benefit option with a provision to "pop up" to the full benefit if the beneficiary predeceases the retiree (Option 5). Retirees who selected a 50% survivor benefit (Option 3) may change to a 50% survivor benefit option with a provision to "pop up" to a full benefit if the beneficiary predeceases the retiree (Option 6). Eligible retirees wishing to change their selection must apply in writing to SRPS by December 31, 2007.

The bill takes effect July 1, 2007.

Fiscal Summary

State Effect: State accrued pension liabilities increase by $23.3 million. Amortizing that amount over 25 years results in State pension contributions increasing by $1.4 million in FY 2010, and increasing thereafter according to actuarial assumptions.

(in dollars)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Revenues	$0	$0	$0	$0	$0
GF Expenditure	0	0	861,000	895,800	931,800
SF Expenditure	0	0	287,000	298,600	310,600
FF Expenditure	0	0	287,000	298,600	310,600
Net Effect	$0	$0	($1,435,000)	($1,493,000)	($1,553,000)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: Pension liabilities for participating governmental units (PGUs) increase by $3.5 million. Amortizing those liabilities over 25 years results in PGU pension contributions increasing by $217,000 in FY 2010, and thereafter according to actuarial assumptions.

Small Business Effect: None.

Analysis

Current Law: At retirement, members of the Teachers' Pension System, Teachers' Retirement System, Employees' Pension System, Employees' Retirement System, and Correctional Officers' Retirement System may choose from among six alternatives to the basic (maximum) benefit in order to provide a survivor benefit for a surviving spouse, child, or other beneficiary. The survivor options are available to retirees of the State Police Retirement System only if they do not have a spouse or dependent children at the time of retirement, and to retirees of the Judges' Retirement System if they do not have a spouse at the time of retirement. Retirees who select one of the six survivor options are subject to an actuarially determined reduction in their monthly benefit payments.

Of the six options, Option 2 provides a 100% survivor benefit in which the beneficiary receives 100% of the reduced benefit payment the retiree had been receiving prior to death. Option 3 provides a 50% survivor benefit in which the beneficiary receives half of the reduced benefit payment. Option 5 also provides a 100% survivor benefit, except that if the beneficiary predeceases the retiree, the retiree begins receiving the basic (unreduced) allowance. Similarly, Option 6 provides a 50% survivor benefit with a "pop up" to the basic allowance if the beneficiary predeceases the retiree.

Background: Options 5 and 6 became available to retirees in July 1989, which explains the bill's 1989 cutoff for eligibility. Among current retirees, Options 2 and 3 are far more popular than Options 5 and 6. The most likely explanation is that the actuarial reduction from the basic allowance for Options 5 and 6 is greater than the reduction for Options 2 and 3, which accounts for the possibility of popping up to the basic allowance. Of the 103,832 retirees as of June 30, 2006, 14% selected Option 2 and 13% selected Option 3, compared with 3% for Option 5 and 5% for Option 6.

State Fiscal Effect: The State Retirement Agency (SRA) reports that among current retirees who retired before 1989, 4,237 selected either Option 2 or Option 3. Based on information provided by SRA, it is assumed that 13% of them are from PGUs, and that they are evenly divided among the two options.

The percentage of eligible retirees who would choose to change their survivor benefit selection from Option 2 to Option 5, or from Option 3 to Option 6 cannot be reliably estimated. The General Assembly's actuary assumes, however, that the most likely candidates for changing their selection would be those retirees whose beneficiary has already predeceased them because they would be immediately eligible for the basic allowance. Unfortunately, SRA does not have reliable information on the status of beneficiaries for eligible retirees because benefits for retirees under Options 2 and 3 are not affected if their spouse predeceases them. As a result, many retirees do not report the death of a spouse. Nevertheless, using certain assumptions about the relative age of retirees and their spouses, the actuary has applied mortality tables to estimate the proportion of eligible retirees whose spouses have already died. As indicated above, it is assumed that all eligible retirees whose spouses are deceased would change their survivor benefit option. It is also assumed that 10% of retirees whose spouse is still living would choose to elect either Option 5 or Option 6.

Based on the information provided by SRA and the assumptions described above, State accrued pension liabilities increase by $23.3 million. Amortizing that amount over 25 years results in State pension contributions increasing by $1.4 million in fiscal 2010, and increasing thereafter according to actuarial assumptions. These costs are assumed to be divided 60% general funds, 20% special funds, and 20% federal funds. The bill has no fiscal effect until 2010 because decisions by retirees to change their beneficiary option would not be captured until the 2008 valuation, which determines State pension contributions for fiscal 2010.

Local Fiscal Effect: Approximately 120 PGUs participate in SRPS. Based on information provided by SRA, and the assumptions described above, PGU pension liabilities increase by $3.5 million. Amortizing those liabilities over 25 years results in PGU pension contributions increasing by $217,000 in fiscal 2010, and thereafter according to actuarial assumptions.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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