

Department of Legislative Services
Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

Senate Bill 488

(Senator McFadden, *et al.*)
(Chair, Joint Committee on Pensions)

Budget and Taxation

Appropriations

State Police Retirement System - Survivor Benefits

This bill increases the survivor benefit from 50% to 80% of the retiree's allowance for a surviving spouse or minor child of a retiree of the State Police Retirement System (SPRS), and repeals a supplemental survivor benefit based on Social Security survivor benefits.

The bill takes effect July 1, 2008.

Fiscal Summary

State Effect: No discernable effect on State pension liabilities or contribution rates.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: A surviving spouse of a retired member of SPRS receives an allowance equal to 50% of the retiree's allowance. If there is no surviving spouse, the benefit is payable in equal amounts to the retiree's surviving minor children. In addition, the surviving spouse or minor children are entitled to a supplemental benefit payment by the State Retirement and Pension System that is based on Social Security survivor benefits.

Background: The supplemental survivor benefit was established in 1965 because the State Police do not participate in Social Security, meaning that surviving spouses of

retired SPRS members were not receiving Social Security survivor benefits, as would other State employees. Over the years, the survivor benefits payable under the supplemental benefit have grown and sometimes exceed 50% of the original retiree allowance. Combined with the regular survivor benefit of 50%, this means that some surviving spouses receive allowances in excess of the benefit paid to the retiree, which violates Internal Revenue Service guidelines for tax-exempt plans. Under those guidelines, benefits paid to beneficiaries cannot exceed the benefits paid to the retiree.

In addition, the State Retirement Agency reports that as Social Security rules and regulations have grown increasingly complex, the agency has lost the ability to administer the supplemental benefit. It lacks access to Social Security records as well as the expertise or practical experience to understand and calculate the benefit in a reliable fashion.

State Fiscal Effect: As noted above, with the supplemental benefit, some surviving spouses or minor children receive allowances that exceed 100% of the original retiree benefit. On average, however, the system's actuary reports that surviving spouses and minor children receive about 80% of the retiree's benefit. The system's previous actuary also valued the combined cost of the survivor benefit and the supplemental benefit at 80%. Combined with the repeal of the supplemental benefit, the increase from 50% to 80% for the regular survivor benefit is therefore cost neutral to the State Retirement and Pension System and to the State. Some SPRS beneficiaries, however, will experience a reduction in their benefit payments, though others may experience an increase.

Additional Information

Prior Introductions: None.

Cross File: HB 482 (Delegate Griffith) (Chair, Joint Committee on Pensions) – Appropriations.

Information Source(s): Department of Legislative Services

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