Department of Legislative Services

Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

Senate Bill 749 (Senator McFadden)
Budget and Taxation

Retirement and Pensions - Election of Benefits - Surviving Spouses

This bill allows, under specified circumstances, the surviving spouse of a deceased retiree of the Employees' Retirement System (ERS) or Employees' Pension System (EPS) who did not, upon retirement, select one of the optional forms of allowance to select an optional allowance and begin receiving the survivorship benefit associated with that allowance. The survivor benefit is reduced to reflect the difference between the basic allowance paid while the retiree was still alive and the optional allowance selected by the surviving spouse.

The bill takes effect July 1, 2008.

Fiscal Summary

State Effect: State pension liabilities could increase by $11.5 million and normal costs could increase by $160,000. Amortizing the liabilities over 25 years and adding the increased normal cost results in State pension contributions increasing by $969,000 in FY 2010. Those costs are assumed to grow annually according to actuarial assumptions and to be split 60% general funds, 20% special funds, and 20% federal funds.

(in dollars)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Revenues	$0	$0	$0	$0	$0
GF Expenditure	0	581,400	601,800	622,800	645,000
SF Expenditure	0	193,800	200,600	207,600	215,000
FF Expenditure	0	193,800	200,600	207,600	215,000
Net Effect	$0	($969,000)	($1,003,000)	($1,038,000)	($1,075,000)

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

Local Effect: Pension liabilities for participating governmental units (PGUs) in ERS/EPS could increase by $2.7 million and normal costs could increase by $55,000. Amortizing the liabilities over 25 years and adding the increased normal costs results in local pension contributions increasing by $245,000 in FY 2010. Those costs are assumed to grow annually according to actuarial assumptions and to be divided proportionately among 113 PGUs.

Small Business Effect: None.

Analysis

Bill Summary: The bill applies only to the surviving spouse of a retiree of either ERS or EPS who, at the time of retirement, had at least 25 years of service credit and died within 18 months of retirement. Once the spouse selects an optional allowance, he or she may not change that selection.

Current Law: ERS/EPS members are eligible for a normal service retirement with 30 years of service or at age 62 (EPS) or 60 (ERS). They are also eligible for early retirement at age 55 with at least 15 years of service, subject to a benefit reduction.

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 (SPRS) only if they do not have a spouse or dependent children at the time of retirement, and to retirees of the Judges' Retirement System (JRS) if they do not have a spouse at the time of retirement. In most State plans, retirees who select one of the six survivor options are subject to an actuarially determined reduction in their monthly benefit payments to account for the additional payments that will be made following their death. However, SPRS and JRS retirees with spouses receive an automatic joint and survivor option with no reduction to the maximum benefit.

Of the six options, Option 1 pays the balance of the actuarial equivalent present value of the retiree's basic allowance at the time of retirement in a lump sum payment to the beneficiary or the retiree's estate. 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 4 pays the balance of the retiree's accumulated contributions at the time of retirement, if any, in a lump sum payment to the beneficiary or the retiree's estate. Option 5 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: Of the 108,355 retirees as of June 30, 2007 (excepting SPRS and JRS), 34% of those selected the maximum benefit (no survivor option); 16% selected Option 1; 14% selected Option 2; 13% selected Option 3; 14% selected Option 4; 3% selected Option 5; and 5% selected Option 6. More than three-quarters of all ERS/EPS retirements are normal service retirements.

State Fiscal Effect: Although the State Retirement Agency is aware of just one individual who is affected by this bill, it could have a much broader impact. The DLS actuary has determined that 61.5% of ERS/EPS retirees who select the maximum benefit are married at the time of retirement. The vast majority of these individuals have at least 25 years of service credit, as noted above. The actuary further assumes that 1.1% of males and 0.6% of females die within 18 months of retirement, which is consistent with observed mortality rates in the two plans, and that future beneficiaries would pick Option 2 to maximize their prospective benefits.

Applying these assumptions, the actuary estimates that State pension liabilities could increase by $11.5 million and normal costs could increase by $160,000. Amortizing the liabilities over 25 years and adding the increased normal cost results in State pension contributions increasing by $969,000 in fiscal 2010. Those costs are assumed to grow annually according to actuarial assumptions and to be split 60% general funds, 20% special funds, and 20% federal funds.

Local Fiscal Effect: Applying the same assumptions to PGUs that participate in ERS/EPS, the actuary estimates that local pension liabilities could increase by $2.7 million and normal costs could increase by $55,000. Amortizing the liabilities over 25 years and adding the increased normal costs results in local pension contributions increasing by $245,000 in fiscal 2010. Those costs are assumed to grow annually according to actuarial assumptions and to be divided proportionately among the 113 PGUs.

Additional Comments: This analysis does not account for ERS/EPS retirees who get married after retirement and then die within 18 months of their retirement. To the extent that their surviving spouses would be eligible to change their survivor option, the cost of the bill could increase.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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mcp/jr

Analysis by: Michael C. Rubenstein

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