

Department of Legislative Services
Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE

House Bill 977
Appropriations

(Delegate Griffith, *et al.*) (Chair, Joint Committee on Pensions)
Budget and Taxation

State Retirement and Pension System - Compliance with Federal Tax Provisions

This bill amends State pension law to comply with the federal Internal Revenue Code.

The bill takes effect July 1, 2009.

Fiscal Summary

State Effect: None. The changes are technical and do not affect governmental finances.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: To comply with federal tax law, any benefits forfeited by a member may only be used to reduce employer contributions, and may not be used to pay for benefit increases.

The bill also expands and clarifies the conditions under which the system can pay direct rollovers to participants, surviving spouses, former spouses, and designated beneficiaries.

The bill amends Chapter 500 of 2005 to also apply to any retiree who requests to change a beneficiary on or after January 1, 2006.

Current Law: A member who withdraws from the State Retirement and Pension System receives a refund of his or her employee contributions, plus interest. However,

employer contributions made on the member's behalf remain in the system. There are no restrictions placed on the use of benefits forfeited by a member.

Chapter 500 of 2005 prohibits a member from designating a beneficiary who is more than 10 years younger than the member, unless the beneficiary is a spouse or a disabled child. It does not apply to retirees who request to change their beneficiary.

Background: The State Retirement Agency advises that these changes are designed to comply with the federal Pension Protection Act of 2006. The agency's outside tax counsel has advised that the changes enhance the system's ability to retain its federal tax-exempt status.

Additional Information

Prior Introductions: None.

Cross File: SB 592 (Senator McFadden)(Chair, Joint Committee on Pensions) - Budget and Taxation.

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

Fiscal Note History: First Reader - February 15, 2009
MCR/rhh

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