

Department of Legislative Services
Maryland General Assembly
2010 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 497

(Senator McFadden)

Budget and Taxation

Appropriations

State Retirement and Pension System - Retiree Death Benefits

This bill requires the State Retirement and Pension System (SRPS) to consider a member of the Employees' Pension System (EPS) who (1) previously worked for the Maryland Court of Appeals; (2) died within 30 days of retiring on or after March 1, 2008; and (3) selected the basic allowance as having died while still an active member of EPS. It entitles the member's surviving spouse to a lump sum death benefit consisting of the return of the deceased member's employee contributions plus interest and an amount equal to the deceased member's average final compensation at the time of retirement.

The bill takes effect July 1, 2010, and terminates December 31, 2010.

Fiscal Summary

State Effect: State pension liabilities increase by an estimated \$188,500. Amortizing the liabilities over 25 years results in an annual negligible increase in State pension contribution rates. No effect on revenues.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: At the time of retirement, a retiree of the affected State systems may choose to receive the basic (full) allowance based on the applicable benefit formula, or choose an optional selection. Optional selections provide an actuarially reduced benefit to the retiree in exchange for providing a survivor benefit upon the retiree's death. The amount of the reduction from the basic allowance depends on the level of survivor benefit

chosen by the retiree. The basic allowance does not provide a survivor benefit upon the death of the retiree. A member may change to an optional selection only before the first retirement benefit check is issued. However, if a retiree dies between the time he or she chooses an optional form of allowance and the effective date of retirement, SRPS pays benefits as if the member had not selected an optional benefit (*i.e.*, the basic allowance, which carries no survivor benefit).

Upon the death of an active member of the affected State systems who has at least one year of service credit, SRPS pays to the member's designated beneficiary the member's accumulated contributions and a lump sum payment equal to the member's annual earnable compensation. However, if at the time of death, an EPS/TPS member (1) is eligible to retire; or (2) is at least 55 years old and has at least 15 years of eligibility service, the spouse may choose an allowance with a survivor benefit instead of the lump sum death benefit payment. This monthly allowance is known as the Spouse Law Benefit, which pays the designated beneficiary 100% of the retiree's reduced retirement allowance for the remainder of the beneficiary's life.

The surviving spouse of an SRPS member or retiree is eligible to participate in the subsidized State Employees and Retirees Health and Welfare Benefits Program (the State health insurance plan) if the spouse is receiving a regular retirement allowance from SRPS, including a regular survivor allowance.

State Fiscal Effect: The State Retirement Agency reports that the effective date of retirement is always the first day of the month. The State Retirement Agency is aware of one EPS retiree whose spouse would be affected by the bill's provisions. The retiree selected the basic allowance and died less than 30 days after retiring. Under current law, his spouse is not entitled to a survivor benefit. Under the bill, however, his spouse is entitled to a lump sum payment of \$188,500 (the member's annual compensation plus a return of employee contributions).

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Allegany, Harford, and Montgomery counties; Mercer Human Resources Consulting; Maryland State Retirement Agency; Department of Legislative Services

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Analysis by: Michael C. Rubenstein

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