

Department of Legislative Services  
Maryland General Assembly  
2016 Session

FISCAL AND POLICY NOTE  
First Reader

House Bill 763  
Appropriations

(Delegate Dumais)

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State Retirement and Pension System - Optional Retirement Allowances -  
Domestic Relations Orders

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This bill requires the Board of Trustees of the State Retirement and Pension System (SRPS) to enforce an election of an optional allowance as provided under a domestic relations order (DRO) involving a member if the board (1) has determined that it is an eligible DRO or (2) has issued a notice of administration acknowledging the election. An enforceable DRO under the bill supersedes a member's election of, receipt of, or failure to elect an optional form of allowance under current law.

The bill takes effect July 1, 2016.

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Fiscal Summary

**State Effect:** Potential minimal increase in State pension liabilities, which are not expected to have a discernible effect on State pension contributions, as explained below. The State Retirement Agency can implement the bill with existing budgeted resources. No effect on revenues.

**Local Effect:** None.

**Small Business Effect:** None.

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Analysis

**Current Law:** Most SRPS members who file retirement applications may choose from among six alternatives to the basic allowance in order to provide a survivor benefit for a surviving spouse, child, or other beneficiary. The basic allowance provides the maximum

unreduced benefit payment to the retiree but offers no survivor benefit, so all payments stop when the retiree dies. State law requires that each optional allowance be actuarially equivalent to the basic allowance, so 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. The allowance reductions are calculated based on the ages of both the retiree and the beneficiary.

The six options are as follows:

- **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% joint and 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% joint and 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 allowance (also called a "pop-up" option).
- **Option 6** provides a 50% "pop-up" survivor benefit.

Once a retiree makes a selection of the basic allowance or one of the six options, the selection may not be changed after the first retirement payment is made. If a member dies before the effective date of retirement, the board must pay the benefits payable on the member's behalf as if the member had not elected an optional form of allowance.

**Background:** During the 2015 interim, the Board of Trustees approved updates to the actuarial factors used to calculate optional allowances to maintain their actuarial equivalence to the basic allowance. It was the first such update to the factors approved by the board in more than 30 years.

State pension law does not define "domestic relations order," but federal law defines it as a judgment, decree, or order that is made pursuant to state domestic relations law (including community property law) and that relates to the provision of child support, alimony payments, or marital property rights for the benefit of a spouse, former spouse, child, or other dependent. A state authority, typically a court, must issue a judgment, order, or decree in order for it to qualify as a DRO.

**State Fiscal Effect:** As each optional allowance is actuarially equivalent to the basic allowance and to each other, any instance in which a DRO requires payment of an optional allowance rather than the basic allowance (or of a different optional allowance) *before* a retirement benefit is paid has no effect on State pension liabilities or contribution rates. However, if a basic allowance has already been paid to a retiree when a DRO requires payment of an optional allowance, liabilities may increase slightly to the extent that an adjustment is not made to recover the overpayment that was made by virtue of paying the basic allowance. It is assumed that this contingency applies in a limited number of cases, so State pension contributions are not materially affected.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** U.S. Department of Labor, State Retirement Agency, Department of Legislative Services

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