

Department of Legislative Services
Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 875

(Senator Serafini)

Budget and Taxation

Appropriations

State Retirement and Pension System - Disability Benefits Study

This bill requires the Department of Budget and Management (DBM), in consultation with the State Retirement Agency (SRA), to issue a request for information (RFI) on the viability of replacing the disability benefits provided by the State Retirement and Pension System (SRPS) with an insurance program that provides the same level of benefits. DBM must report on the results to the General Assembly and the SRPS Board of Trustees by December 1, 2016.

The bill takes effect July 1, 2016.

Fiscal Summary

State Effect: None. DBM and SRA can issue the RFI and DBM can report with existing budgeted resources. No effect on revenues.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: Prior to reaching normal retirement eligibility, a member of SRPS is eligible for one of two types of disability benefits:

- **ordinary disability**, if the member is mentally or physically incapacitated for the further performance of the normal duties of the member's position, the incapacity is likely to be permanent, and the member has five years of eligibility service; or

- **accidental disability**, if the member is totally and permanently incapacitated for duty as the natural and proximate result of an accident that occurred in the actual performance of duty at a definite time and place without willful negligence by the member, the member is mentally or physically incapacitated for the further performance of the normal duties of the member's position, and the incapacity is likely to be permanent. There is no minimum service requirement for accidental disability.

Instead of an accidental disability, members of the State Police Retirement System are eligible for a "special disability," in which the incapacity need only *arise out of* the actual performance of duty (*i.e.*, it need not occur at a specific time and place). For members of the Law Enforcement Officers Pension System, the disability benefit is still referred to as accidental, but the criteria for eligibility are identical to those for the State Police Retirement System in that the incapacity need only *arise out of* the actual performance of duty.

Ordinary disability benefits are calculated in the same manner as normal service retirements, except that years of service are projected to normal retirement age.

By statute, all incapacities for which disability benefits are paid are assumed to be permanent, so there are no provisions for re-examining disability retirees to determine if the incapacity has ended or for suspending benefits if the incapacity ends.

Background: In response to a request in the 2015 *Joint Chairmen's Report*, the Department of Legislative Services, in collaboration with SRA, conducted a comprehensive review of State disability benefits and reported its findings and recommendations to the Joint Committee on Pensions in October 2015. Among the key findings from the review were:

- The SRA process for reviewing applications for disability benefits is rigorous and multi-layered, relying heavily on assessments by medical professionals.
- At least 90% of applications for disability benefits were approved by the board in each of the last five fiscal years. This includes applications for accidental or special disability that were granted ordinary disability benefits.
- Maryland has the highest percentage of disability retirees of the 50 states (11.67% of all retirees).

- Maryland has the twelfth highest average disability payment (\$20,670) of the 50 states.
- Maryland is one of only a few states that does not authorize suspension or termination of a disability benefit if the retiree is no longer disabled.
- At least four states (Arizona, Colorado, Kansas, and Missouri) administer their disability benefits program through a third-party administrator/insurer.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): State Retirement Agency, Department of General Services, Department of Budget and Management, Cheiron, Maryland Supplemental Retirement Plans, Department of Legislative Services

Fiscal Note History: First Reader - March 9, 2016
min/rhh Revised - Senate Third Reader - March 31, 2016

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