

Department of Legislative Services
Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 913

(Senator Guzzone)(Chair, Joint Committee on Pensions)

Budget and Taxation

Appropriations

State Retirement and Pension System - Death Benefits

This bill extends the duration of payments that may be made to the surviving children of specified members, former members, and retirees of the State Retirement and Pension System (SRPS). Specifically, it extends payments to surviving nondisabled children until each child turns 26 years old, except for the State Police Retirement System (SPRS); disabled children receive payments as long as they remain disabled. It also specifies that, if all individuals who are eligible for a special death benefit elect to waive payment of that benefit, a general death benefit is paid to them instead. The bill makes dependent parents of deceased members of the Correctional Officers' Retirement System (CORS), like other SRPS plans, eligible for the State health plan. Finally, the bill makes other conforming and technical changes to provisions related to the payment of SRPS death benefits.

The bill takes effect July 1, 2017, and applies only prospectively to benefits payable for deaths that occur on or after the effective date.

Fiscal Summary

State Effect: State pension liabilities increase to the extent that SRPS pays survivor benefits to children between the ages of 18 and 26 or to disabled children as long as they remain disabled. The bill is expected to have limited applicability, as discussed below, so any increase in liabilities is not expected to have a measurable effect on State pension contribution rates. Any effect on State retiree health liabilities is also expected to be negligible due to the bill's limited applicability. No effect on revenues.

Local Effect: The bill is expected to have limited applicability for the same reasons as discussed for the State, so any increase in pension liabilities for participating governmental units is not expected to have a measurable effect on local contribution rates.

Small Business Effect: None.

Analysis

Bill Summary/Current Law:

General, Special, and Line-of-duty Death Benefits

Under current law, there are three types of death benefits payable to surviving family members of active members of SRPS who die or are killed: general, special, and line-of-duty death benefits.

When any active member of SRPS dies, SRPS pays a *general death benefit* to the member's beneficiary or estate consisting of the member's accumulated contributions. If the member dies in the course of the performance of duty or has at least one year of eligibility service, SRPS also pays the beneficiary or estate an amount equal to the member's annual compensation. The bill specifies that, if a member designates more than one beneficiary, these lump sum death benefit payments are paid in equal shares to each of the designated beneficiaries.

Current law includes two other types of survivor benefits. A *special death benefit* is paid when an active member of SPRS or the Law Enforcement Officers' Pension System (LEOPS) dies without willful negligence by the member and with at least two years of eligibility service. The benefit is paid to a surviving spouse or a surviving child younger than age 18 and consists of a return of the member's accumulated contributions and a monthly allowance of 50% of an ordinary disability allowance.

A *line-of-duty death benefit* is paid when an active member of SPRS, LEOPS, CORS, the Employees' Combined Systems (ECS), or the Teachers' Combined Systems (TCS) dies without willful negligence by the member and the death occurred out of or in the course of the actual performance of duty. The benefit consists of a return of the member's accumulated contributions and a regular monthly allowance of two-thirds of the member's average final compensation.

The general death benefit is not paid if either a special or line-of-duty death benefit is paid. However, the bill specifies that if all individuals eligible for a special or line-of-duty death benefit elect to waive that benefit, then the general death benefit is paid to them.

Death Benefits Payable to Surviving Children

In general, under current law, death benefits are payable to surviving children of specified SRPS members, former members, and retirees only when (1) there is no surviving spouse

or the surviving spouse dies before the youngest child is 18 years old and (2) the children are younger than age 18.

When death benefits are paid to surviving children and there is more than one child who is younger than age 18, the payments are divided among the children until each child dies or reaches age 18; as each child reaches age 18, the payments to the remaining child(ren) are adjusted upward so that the total benefit is not reduced until all of the children reach age 18. These provisions apply to death benefits payable for:

- retirees or former members who have retired with a vested allowance from SPRS;
- retirees of LEOPS;
- members, former members, or retirees of the Judges' Retirement System (JRS);
- active members of LEOPS who have at least two years of eligibility service and die without willful negligence by the member;
- active members of SPRS who (1) die in the course of the performance of duty or (2) have at least two years of eligibility service and die without willful negligence on the part of the member;
- active members of CORS who die in the course of the performance of duty; and
- active members of TCS or ECS who die in the course of the performance of duty.

In the event that any of the individuals described above does not have a surviving spouse or the surviving spouse dies before each child turns 26, but there are surviving children, *the bill* alters the duration of the payment of death benefits to the surviving children. Specifically, it:

- raises the maximum age that a child is paid a death benefit from 18 to 26, except that (1) the increase in age from 18 to 26 does not apply to surviving children of retirees or former members of SPRS and (2) disabled children continue receiving benefits as described below;
- provides a surviving child who is disabled, as defined by the Internal Revenue Code, with a benefit that is equal to the combined death benefits payable to the deceased individual's other beneficiaries after either (1) all nondisabled children have died or (2) the youngest nondisabled child turns 26 (or turns 18 for surviving children of retirees or former members of SPRS);
- requires that any survivor benefits paid to a disabled child continue as long as the child remains disabled; and
- specifies that if more than one surviving child is disabled, the allowance payable to a disabled child is divided equally among the disabled children.

Other Provisions

In SPRS, TCS, and ECS, when a death benefit is payable for an active member who dies or is killed in the line of duty and there is neither a surviving spouse nor eligible surviving children, current law lists dependent parents as eligible death benefit recipients. The bill adds dependent parents as eligible death benefit recipients for active members of LEOPS and CORS who do not have a surviving spouse or eligible surviving children.

The bill makes a conforming change that allows a surviving dependent parent of a deceased member of CORS to join the State Employee and Retiree Health and Welfare Benefits Program (the State health plan) as long as the parent is receiving a benefit allowance from SRPS. Similar provisions exist for surviving dependent parents in other SRPS plans.

Background: Chapter 12 of 2016 raised the maximum age, from 18 to 26, of a surviving child to whom a line-of-duty death benefit can be paid under LEOPS only. It also required the State Retirement Agency (SRA) and Department of Legislative Services to review existing death benefit provisions in State pension law, including those in the Legislative Pension Plan, and recommend changes to the Joint Committee on Pensions by December 1, 2016. Chapter 12 was prompted by the line-of-duty deaths of two Harford County Deputy Sheriffs, one of whom had two surviving sons. At the time, one of the sons was not eligible for a survivor benefit because he was older than age 18, and the other was eligible for a line-of-duty benefit for about three months. By virtue of receiving that payment, however, he would not have received the general death benefit, which included a larger payment of a full year's compensation. By raising the payment threshold to age 26, both sons share equally in the line-of-duty death benefit until one of them reaches age 26.

SRA and DLS conducted the study and presented their findings and recommendations as required by Chapter 12, including a recommendation that the payment threshold for surviving children be raised to age 26 for all SRPS plans. This bill implements that for all plans except for surviving children of retirees or former members of SPRS, and it generally implements other recommendations from the report.

As of June 30, 2016, SRPS had 152,566 retirees and beneficiaries, of whom 861 (0.6%) were receiving survivor benefit allowances resulting from in-service deaths. As of the same date, SRPS paid \$3.5 billion in annual benefits, of which \$21.6 million (0.6%) was for survivor benefit allowances resulting from in-service deaths.

State Fiscal Effect: State pension liabilities increase to the extent that SRPS pays survivor benefits to children between the ages of 18 and 26, or to disabled children for as long as they remain disabled. The bill applies to specified surviving children of *retirees* of JRS, SPRS, and LEOPS; it is assumed that, in most cases, retirees of those systems who die do not have disabled children or children as young as 26 (or 18 in the case of SPRS) or, if they

do, they likely have a spouse who qualifies for the survivor benefit. Therefore, the bill is not expected to have a significant effect on pension liabilities due to the death of retirees. Thus, the effect is primarily due to the death of *active* members.

The bill does not affect the payment of general death payments to surviving children of members of TCS and ECS, the system's two largest plans. However, it extends payments to specified children of members of JRS, SPRS, and LEOPS who die either without willful negligence by the member or in actual performance of duties. It also extends payments to surviving children of members of CORS, TCS, and ECS who die in the actual performance of duties. SRA advises that, in the past three years, the two Harford County Deputy Sheriffs who were killed in the line of duty were the only members of any plan who were killed in the line of duty; therefore, the bill also is not expected to have a significant effect on liabilities due to deaths occurring in the line of duty.

The bill's remaining effect is from payment of survivor benefits to specified surviving children of active members of JRS, SPRS, and LEOPS who die without willful negligence by the member and who do not have a surviving spouse. SRA advises that there have been no more than three deaths combined by active members of those three plans in each year (two in fiscal 2015, one in fiscal 2016, and three so far in fiscal 2017). Of the six total deaths, survivor benefits are being paid to surviving children in just one instance. Given the limited incidence of in-service deaths and the fact that the total number of survivor payments as a share of total retiree payments is less than 1.0%, it is likely that the bill has limited application. Certainly, paying survivor benefits for an additional eight years or, in the case of a disabled child, for longer, can add up to a substantial sum. However, given the limited application, it likely does not have a measurable effect on pension liabilities or contribution rates.

Surviving children, including disabled children, are eligible to participate in the State health plan as long as they are receiving a regular payment from SRPS. As the bill allows them to participate for longer than they currently are allowed, it increases State retiree (and beneficiary) health liabilities. However, due to the bill's limited applicability, it is not expected to have a discernible effect on those liabilities or State costs for health benefits. Likewise, making deceased CORS members' dependent parents eligible for State health benefits has no discernible fiscal impact.

Additional Information

Prior Introductions: None.

Cross File: HB 1122 (Delegate B. Barnes)(Chair, Joint Committee on Pensions) - Appropriations.

Information Source(s): Department of Budget and Management; State Retirement Agency; Department of Legislative Services

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