SB 764

Department of Legislative Services

Maryland General Assembly
2020 Session

FISCAL AND POLICY NOTE
Third Reader

Senate Bill 764 (Senator Elfreth)(Chair, Joint Committee on Pensions)
Budget and Taxation Appropriations

State Retirement and Pension System - Pension Benefits - Calculation

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This bill requires that, if the annuity of a member or former member of specified plans in the State Retirement and Pension System (SRPS) is greater than the individual's normal service retirement allowance, the retirement allowance must be equal to the annuity. The bill applies to members or former members of the Teachers' Combined System, the Employees' Combined System, the State Police Retirement System, the Correctional Officers' Retirement System, and the Law Enforcement Officers' Pension System. **The bill takes effect July 1, 2020, and applies retroactively to specified individuals who had their retirement accounts created or adjusted on or after October 1, 2013.**

Fiscal Summary

State Effect: None. The bill codifies existing practice and has no material effect on State pension liabilities or contribution rates. No effect on revenues.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law/Background:

Definitions

State pension law defines the following terms:

- “Annuity” is the part of a retirement allowance that is derived from the accumulated contributions of a *member*.
- “Annuity reserve” is the present value of an annuity computed on the basis of actuarial assumptions adopted by the SRPS Board of Trustees.
- “Pension” means the part of a retirement allowance that is derived from *employer* contributions.
- “Pension reserve” means the present value of a pension that is computed on the basis of actuarial assumptions adopted by SRPS Board of Trustees.

Calculation of Normal Service Retirement Benefits

For the affected SRPS plans, the normal service retirement allowance is calculated according to a standard formula, which is:

> Normal Service Retirement Benefit = [Years of Service] x [Average Final Compensation] x [Benefit Multiplier Set in Statute]

In each of the plans, members make regular contributions to the plan as a percentage (set in statute) of their earnable compensation. Those member contributions are deposited in an annuity reserve fund to the credit of the member and earn annual interest (for most SRPS members, the interest is 5%, compounded annually). There is a corresponding employer contribution made as a percentage of each member’s earnable compensation that is deposited in a pension reserve fund.

For virtually all retirees, the benefit paid to them includes both an annuity component and a pension component. According to the State Retirement Agency (SRA), the annuity payment is calculated first based on the amount in the annuity reserve fund, including all accumulated interest. The annuity amount is then subtracted from the calculated retirement benefit to determine the portion to be paid from the pension reserve. However, in extremely rare instances, the annuity payment equals or exceeds the calculated retirement benefit, so no pension reserve funds are needed to pay the benefit. This rare instance typically happens for former vested members who separated from employment early in their careers and whose annuity reserves have grown at 5% annually, ultimately exceeding the value of their modest benefit based on just a few years of service.

Overpayments Identified

SRA advises that, since 2010, when it launched its new automated pension administration system, in instances where the annuity payment exceeds the calculated retirement benefit, the system has been paying the higher amount rather than capping the payment at the calculated retirement benefit. SRA has identified 34 retirees who are receiving the higher payment, totaling $104,296 in excess payments since 2010.

In response, SRA asked the Joint Committee on Pensions (JCP) to sponsor legislation to either codify the existing practice (which maintains the overpayments), or to require gradual repayment of the excess benefits by the 34 retirees. JCP opted to sponsor legislation to codify the existing practice. As the benefits being paid are entirely from the members' annuity reserve and the amount of overpayment is negligible, there is no material effect on State pension liabilities.

Additional Information

Prior Introductions: None.

Designated Cross File: HB 948 (Delegate M. Jackson)(Chair, Joint Committee on Pensions) - Appropriations.

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

Fiscal Note History: First Reader - February 19, 2020
rh/vlg Third Reader - March 13, 2020

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