Department of Legislative Services

Maryland General Assembly
2020 Session

FISCAL AND POLICY NOTE
First Reader - Revised

House Bill 115 (Delegate D.E. Davis)(By Request)
Appropriations

Teachers' Pension System - Option Election

This bill allows specified retirees of the Teachers' Pension System (TPS) to change their election of an optional benefit. Retirement benefits for individuals who change their optional election must be recalculated as if the new optional allowance was elected at the time of retirement, including any applicable cost-of-living adjustments, and must apply prospectively. **The bill takes effect July 1, 2020, and terminates June 30, 2021.**

Fiscal Summary

State Effect: State pension liabilities and contribution rates may increase minimally, as discussed below. No effect on revenues.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The bill applies to an individual who:

- was a member of TPS;
- was employed as a teacher with the Prince George's County Public Schools on or after January 1, 1988;

- ceased employment as a teacher with Prince George's County Public Schools on or after June 30, 2017; and

- is a retiree of TPS who elected "Option 1" as an optional form of allowance.

Any change in optional election must be made and submitted to the State Retirement Agency before December 31, 2020.

Current Law: Most State Retirement and Pension System 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 one-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: The State Retirement Agency is aware of 76 individuals who qualify to change their optional selection after retirement under the bill.

State Expenditures: It is not known how many, if any, of the eligible retirees will elect to change their optional benefit, or which benefit they would select, so a reliable estimate of the bill's effect on pension liabilities is not feasible. In theory, each option is actuarially equivalent to the basic allowance, so any change would not affect pension liabilities. In practice, however, a retiree would only change their optional benefit if it favored them financially based on different life circumstances since their retirement (*e.g.*, remarriage or the death of a beneficiary), which is generally why statute does not allow them to make a change after they retire. Thus, the bill has the potential to increase pension liabilities and contribution rates. However, given the limited number of retirees affected by the bill, any such increase is likely to be minimal.

Additional Comments: Depending on which option an eligible retiree selects under the bill, the bill may result in the payment of a lifetime annuity instead of a one-time lump sum payment to a retired member. The State Retirement Agency advises that federal regulations prohibit the period of time over which retirement payments are paid from being changed, or annuity payments from increasing over the lifetime of a retiree, except in limited circumstances that likely do not apply to this bill. Depending on how the bill is interpreted, its implementation may, therefore, affect the system's tax-favored status under federal tax law.

Additional Information

Prior Introductions: None.

Designated Cross File: None.

Information Source(s): State Retirement Agency; Prince George's County Public Schools; Department of Legislative Services

Fiscal Note History: First Reader - January 22, 2020
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