

Department of Legislative Services  
Maryland General Assembly  
2021 Session

FISCAL AND POLICY NOTE  
Third Reader - Revised

Senate Bill 680

(Senator Jennings)

Budget and Taxation

Appropriations

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**State Retirement and Pension System - Administration of Benefits - Clarification**

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This bill exempts specified former members of the Teachers' Pension System (TPS) from a requirement that they be separated from employment with a participating employer in order to receive a vested allowance after attaining normal retirement age. It also requires the Board of Trustees of the State Retirement and Pension System (SRPS) to (1) accept a specified application to change an optional benefit election, under specified circumstances; (2) retroactively adjust a specified disability benefit; and (3) report to the Joint Committee on Pensions (JCP) regarding optional selections for individuals receiving specified disability benefits. **The bill takes effect June 1, 2021.**

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**Fiscal Summary**

**State Effect:** Since it is assumed that this bill applies in a limited number of cases, it has no material effect on State pension liabilities or contribution rates. No effect on revenues.

**Local Effect:** None.

**Small Business Effect:** None.

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## Analysis

### Bill Summary:

#### *Teachers' Pension System Exemption Provision*

The exemption for former members of TPS applies to an individual who:

- was a member of TPS at specified times and with specified employers between January 1980 and June 2005;
- is currently employed with the Baltimore City Public Schools in a position that is not eligible for membership in SRPS;
- has reached or exceeded normal retirement age in TPS; and
- upon being eligible for a vested allowance is not eligible for membership in SRPS.

The State Retirement Agency (SRA) advises that it is aware of one individual who meets these criteria.

#### *Change of Optional Election Provision*

The provision related to a form to change an optional election applies to an individual who:

- was enrolled in the Employees' Pension System (EPS) as an employee of the St. Mary's County Metropolitan Commission on or after July 1, 2004;
- signed, in the presence of a notary on or after December 1, 2017, a *preliminary* application for ordinary disability benefits designating the individual's spouse to receive the Option 2 survivor allowance;
- applied for an ordinary disability allowance from EPS on a form that selected the basic allowance;
- was awarded an ordinary disability allowance on or after March 1, 2018;
- on or before April 30, 2018, after receiving a specified notice from SRA, signed in the presence of a notary a change of option election form that designated the individual's spouse to receive the Option 2 survivor allowance; and
- died on or before December 1, 2019.

For this individual, the SRPS board must accept the change of option election form if it determines that it was timely submitted before the first allowance payment was made, as specified. If SRPS determines that the form was timely submitted, the designated beneficiary is entitled to benefits from the date that benefits would have been paid had the agency received the form in a timely manner. SRA must adjust the allowance paid to provide the actuarial equivalent amount to which the beneficiary is correctly entitled.

## *Reporting Requirement*

By December 1, 2021, SRA must report to JCP on:

- the number of ordinary disability retirement allowances awarded on or after July 1, 2018; and
- the number of such allowances that (1) selected Option 1 or Option 2; (2) were paid the basic allowance or each optional election in current law; and (3) were awarded allowances based only on a preliminary application.

**Current Law:** A vested allowance is an allowance that is not payable at the time of separation from employment with an employer that participates in SRPS but is deferred until the former member becomes eligible for immediate payment. Generally, individuals who separate from employment with a participating employer after vesting but before qualifying for retirement are eligible for a vested allowance when they reach retirement age.

Individuals who were members of SRPS on or before June 30, 2011, vest after 5 years of service and become eligible for a normal service retirement at age 62 or after 30 years of service regardless of age. Thus, if they separate from employment after 5 years but before qualifying for retirement, they are eligible for a vested benefit at age 62. To receive the vested benefit, the former member must be separated from employment with any participating employer.

## *Optional Benefit Elections*

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 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.

Generally, if, because of an error, a retiree or beneficiary receives a benefit that differs from the benefit the retiree or beneficiary is entitled to receive, the SRPS board must correct the error and, to the extent practicable, adjust the payment to the retiree or beneficiary to provide the actuarial equivalent to which the retiree or beneficiary is correctly entitled.

### **Additional Information**

**Prior Introductions:** None.

**Designated Cross File:** HB 929 (Delegate Arian) - Appropriations.

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

**Fiscal Note History:** First Reader - February 17, 2021  
rh/vlg Third Reader - March 31, 2021  
Revised - Amendment(s) - March 31, 2021

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