

Department of Legislative Services  
Maryland General Assembly  
2016 Session

FISCAL AND POLICY NOTE  
Third Reader

Senate Bill 345

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

Budget and Taxation

Appropriations

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State Retirement and Pension System - Optional Retirement Allowances -  
Designated Beneficiaries

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This bill clarifies that any eligible retiree of the several systems of the State Retirement and Pension System (except the Legislative Pension Plan) may designate multiple beneficiaries to share the survivor benefit equally when selecting a single-life annuity option.

The bill takes effect July 1, 2016.

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Fiscal Summary

**State Effect:** No effect on State pension liabilities or contribution rates as the bill conforms statute to current practice. No effect on revenues.

**Local Effect:** None.

**Small Business Effect:** None.

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Analysis

**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. In most State plans, 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 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.

Under the Code of Maryland Regulations (COMAR), a member, former member, or retiree may designate multiple beneficiaries to receive a survivor benefit in equal shares. However, for the options that pay a lifetime benefit to a designated beneficiary, a retiree may designate only one beneficiary. This applies to Options 2, 3, 5, and 6. Thus, a retiree may designate multiple beneficiaries only for Options 1 and 4, the single-life annuity options.

At the time of retirement, a member of the Judges' Retirement System (JRS) who selects Option 1 may designate more than one beneficiary. If more than one beneficiary is selected, the single survivor payment made under Option 1 is paid in equal shares to each designated beneficiary.

**Background:** Staff at the State Retirement Agency recently noticed that current law governing Option 1 states that only a retiree of JRS may designate more than one beneficiary. As it has been the agency's practice, under COMAR, to allow retirees of all the systems to designate more than one beneficiary for Options 1 and 4, the agency is concerned that the statutory language may create confusion. Thus, the agency

recommended to the Joint Committee on Pensions that the statute be clarified to allow retirees of all the systems to designate multiple beneficiaries for Options 1 and 4, in accordance with agency practice. The Joint Committee on Pensions agreed to sponsor the legislation.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 382 (Delegate B. Barnes)(Chair, Joint Committee on Pensions) - Appropriations.

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

**Fiscal Note History:** First Reader - February 10, 2016  
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