

Option & Annuity Factor Questions & Answers

New option and annuity factors will be in place for members of the Maryland State Retirement and Pension System (SRPS) who choose a retirement date effective on or after July 1, 2017.

What are option and annuity factors?

Option and annuity factors are actuarial values used to calculate monthly retirement benefit payments **for members who select an optional form of retirement allowance that reduces the retiree's Basic Allowance** and may provide beneficiary protection after the retiree's death. The new factors reflect current expectations for cost-of-living adjustments, life expectancy, and the mix of males and females electing options.

Why are they changing?

The change is necessary because the most recent experience study conducted by the System's actuary found that there have been enough changes in the plan provisions and demographics over the last several years to warrant an adjustment in the factors.

When do they go into effect?

The new factors are only applicable for new retirements on or after July 1, 2017. If you retire before July 1, 2017, and elect an optional form of allowance, your monthly allowance will be based on the current factors for your lifetime.

Why aren't they in effect now?

There are three reasons why they cannot be implemented immediately: Considerable effort will be required to reprogram the Retirement Agency's computer system; the Agency needs the time to communicate this change to its active members; and the proposed regulations adopting the new option and annuity factors must go through the regulatory review process before they can be finally adopted.

How will this affect me?

In most, but not all cases, the new factors will result in higher monthly benefits and increased present values for people electing one of the optional forms of allowance for a retirement effective on or after July 1, 2017. The benefits for those selecting the Basic Allowance remain the same, unless an adjustment for additional contributions or a contribution deficiency needs to be made to the member's account.

How are benefits calculated?

Benefit payments are determined by a number of factors, including the state system (Employees', Teachers', State Police, Correctional Officers', Law Enforcement Officers', and Judges) to which the member belongs, the age at retirement, the type of retirement (service or disability), the amount of money accumulated, the annuity option elected and the age of the beneficiary. It is important to note that the new factors do not change the formula that is used to calculate the Basic Allowance.

What should I do?

Individuals contemplating retirement—and plan on choosing an option other than the Basic Allowance—should request an estimate in order to determine how the change will affect their individual situations. For the Employees’, Teachers’, Local Fire and Police, and Correctional Officers’ Systems, the Basic Allowance provides the largest monthly allowance to a retiree, with all payments ceasing upon the retiree’s death. For the State Police, Law Enforcement Officers’ and Judges’ Systems, and the Legislative Pension Plan, the Basic Allowance includes survivor protection.

If you are within one year of retirement eligibility and can delay your retirement effective date until after July 1, 2017, you may wish to request a comparative benefit estimate. Please write “comparative estimate” at the top of your *Application for an Estimate of Service Retirement Allowance* to alert Retirement Agency staff that you are only considering retirement. If you must retire before July 1, 2017, no comparative estimate is needed.

What are the retirement options?

BASIC ALLOWANCE: The Basic Allowance pays you the largest possible amount of money each month until your death. For the Employees’, Teachers’, Local Fire and Police, and Correctional Officers’ Systems, all monthly payments stop at your death, including beneficiary health coverage for state employees. After your death, your beneficiary or estate will receive one final monthly payment if your death occurs on the 16th of the month or later. For the State Police, Law Enforcement Officers’ and Judges’ Systems, and the Legislative Pension Plan, the Basic Allowance includes survivor protection for a surviving spouse or children under the age of 18. For more detailed information, please review the benefits handbook for your state system, available on the State Retirement Agency’s website at sra.maryland.gov.

OPTION 1: Provides a lower monthly benefit than the Basic Allowance, but guarantees monthly payments that equal the total of your retirement benefit’s Present Value. The Present Value of your benefit is figured at the time of your retirement. If you die before receiving monthly payments, excluding any cost-of-living adjustments, that add up to the Present Value, the remaining payments will be paid in a lump sum to your designated beneficiary or beneficiaries who remain alive.

OPTION 2: Provides a lower monthly benefit than the Basic Allowance, but guarantees that after your death the same monthly benefit will continue to be paid to your surviving beneficiary for his or her lifetime. No further payments will be made after the deaths of you and your beneficiary.

OPTION 3: Provides a lower monthly benefit than the Basic Allowance, but guarantees that after your death one half of the monthly benefit paid to you will be paid to your surviving beneficiary for his or her lifetime. No further payments will be made after the deaths of you and your beneficiary.

OPTION 4: Provides a lower monthly benefit than the Basic Allowance, but guarantees the return of your accumulated contributions and interest as established when you retire. If you die before you have recovered the full amount of your accumulated contributions and interest, which is paid as a portion of your monthly payments, the remainder will be paid in a lump sum to your designated beneficiary or beneficiaries who remain alive.

OPTION 5: Provides a lower monthly benefit than the Basic Allowance, but guarantees that after your death the same monthly benefit paid to you will be paid to your surviving beneficiary for his or her lifetime. It also provides that your monthly benefit will “pop-up” to the Basic Allowance for your lifetime the month following the death of your beneficiary if your beneficiary dies before you. If your original

beneficiary dies and you are collecting the Basic Allowance and decide to name a new beneficiary, your benefit will be recalculated under Option 5 based on the new beneficiary designation.

OPTION 6: Provides a lower monthly benefit than the Basic Allowance, but guarantees that after your death one half of the monthly benefit paid to you will be paid to your surviving beneficiary for his or her lifetime. It also provides that your monthly benefit will “pop-up” to the Basic Allowance for your lifetime the month following the death of your beneficiary if your beneficiary dies before you. If your original beneficiary dies and you are collecting the Basic Allowance and decide to name a new beneficiary, your benefit will be recalculated under Option 6 based on the new beneficiary designation.

For detailed information, please review the benefits handbook applicable to your state system, available on the Maryland State Retirement Agency’s website at sra.maryland.gov.