

Department of Legislative Services
Maryland General Assembly
2024 Session

FISCAL AND POLICY NOTE
Third Reader

Senate Bill 322

(Senator Jackson)

Budget and Taxation

Appropriations

Maryland Teachers and State Employees Supplemental Retirement Plans -
Automatic Enrollment

This bill requires the Board of Trustees of the Maryland Teachers and State Employees Supplemental Retirement Plans (MSRP) to automatically enroll all eligible State employees hired on or after January 1, 2025, in a supplemental retirement plan. Employees may opt out of automatic enrollment within 90 days of beginning employment with the State.

Fiscal Summary

State Effect: To the extent the bill results in more State employees contributing to supplemental retirement plans, State expenditures (all funds) increase to match employee contributions, up to \$600 per employee, potentially by more than \$1.0 million annually, as discussed below. Similarly, special fund revenues increase commensurately from account management fees. Any such increase in expenditures and revenues cannot be reliably estimated because it is not known how many employees will opt out of a plan or how much participating employees will elect to contribute to a plan. MSRP can implement the bill with existing resources.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: Except for an employee who opts out of automatic enrollment, an eligible employer must deduct an amount established by the board from the employee's wages for

a contribution to a supplemental retirement plan. An employee can elect to remain enrolled in a plan but cease making contributions to the plan. An employee can also elect to have a different amount deducted than the amount established by the board. Employee contributions to a plan must be invested in a default investment option.

The board must provide a notice to each employee who is automatically enrolled in a plan that includes specified information, including the employee's right to receive a refund of their account contributions as soon as practicable after discontinuing participation within 90 days of beginning employment.

Each State agency that hires an eligible employee who is not already enrolled in a supplemental retirement plan must provide the board with the information necessary to complete the automatic enrollment process.

Current Law: MSRP are administered by a board of trustees, as established in Title 35 of the State Personnel and Pensions Article. The board has responsibility over four defined contribution plan options: 401(k) and 457(b) plans for State employees; 403(b) plans for employees of State educational institutions; and a 401(a) State matching plan.

Enrollment in an MSRP supplemental plan is currently voluntary for State employees (by contrast, enrollment in the defined benefit plans administered by the State Retirement and Pension System is a condition of employment for virtually all State employees).

MSRP finances its operations through a fee imposed on members' accounts based on a percentage of assets in the plans and a flat-rate monthly charge, which are paid to a special fund. As of February 2022, the board fee is composed of a 0.034% asset fee and a monthly per account charge of \$0.50 on every account with at least \$500 (except for 401(a) match plan accounts). The board contracts with Nationwide Retirement Solutions, Inc. for plan administration. The Nationwide contract requires a management fee of 0.0775% of assets. Therefore, the reported total participant fee is 0.1115% of plan assets and a \$0.50 charge on specified accounts.

All supplemental plans administered by the board have a minimum contribution of \$5 per two-week pay period; participating employees may elect to contribute higher amounts. For members of the Employees' Pension System (and specified members of the Employees' Retirement System), Chapter 100 of 2023 requires the State to match employee contributions to an MSRP plan dollar for dollar, up to \$600 per fiscal year.

State Fiscal Effect: A recent study by MSRP reports that 38% of eligible State employees actively participate in a supplemental plan administered by MSRP. Assuming that 38% of new hires elect to participate absent the bill, the bill potentially affects up to 62% of new hires. However, many of the new employees who would not elect to participate under

current law (*i.e.*, without automatic enrollment) may also elect to opt out when automatic enrollment takes effect. Moreover, the rate at which eligible employees elect to participate in defined contribution plans (like those offered by MSRP) varies by income levels. According to the U.S. Bureau of Labor Statistics, more than 80% of earners in the top decile elect to participate, but fewer than 50% in the lowest decile elect to participate. Therefore, a reliable estimate of the bill's effect on participation in MSRP plans is not feasible.

For illustrative purposes only, the fiscal 2025 budget as introduced includes nearly 2,500 new positions. Assuming a 10% vacancy rate and a 40% opt-out rate, approximately 1,250 additional employees elect to contribute to an MSRP plan in fiscal 2025. Assuming they contribute enough to earn the full \$600 match, State expenditures (all funds) increase by \$750,000 in fiscal 2025 to pay the match. Adding in new hires due to employee turnover, the total increase in State expenditures could exceed \$1.0 million.

Similarly, special fund revenues for MSRP increase from asset management fees paid by more participants, but a reliable estimate is not feasible for the same reasons described above. Based on one set of assumptions, MSRP estimates the increase to be approximately \$60,000 annually.

Additional Information

Recent Prior Introductions: Similar legislation has been introduced within the last three years. See SB 6 and HB 296 of 2023.

Designated Cross File: None.

Information Source(s): Maryland Department of Transportation; Maryland Supplemental Retirement Plans; U.S. Bureau of Labor Statistics; Department of Legislative Services

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