

G50L00
Maryland Supplemental Retirement Plans

Program Description

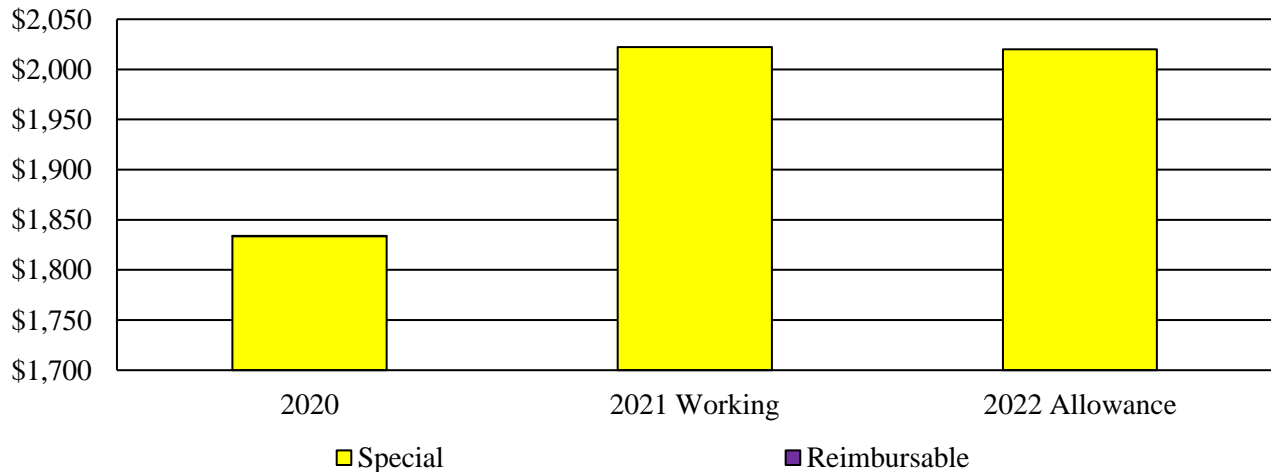
The Teachers’ and State Employees’ Supplemental Retirement Plans are administered by a board of trustees, as established in Title 35 of the State Personnel and Pensions Article. The board has responsibility over four plan options, which can be found in **Appendix 1**.

The Maryland Supplemental Retirement Plans (MSRP) staff supports the board of trustees’ work in selecting investment options and overseeing operations. MSRP staff also provides educational programs and information to State employees and human resources personnel. These efforts are designed to create awareness among State employees of the need and mechanisms available to save for their own retirement.

MSRP finances operations through a fee imposed on members’ accounts based on a percentage of assets in the plans and a flat-rate monthly charge. The board fee, effective October 1, 2020, is currently composed of a 0.0425% 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. (Nationwide) for plan administration. The Nationwide contract requires a management fee of 0.0775% of assets. Therefore, the reported total participant fee is 0.12% of plan assets and a \$0.50 charge on specified accounts.

Operating Budget Summary

Fiscal 2022 Budget Decreases \$2,300, or 0.1%, to \$2 Million
(\$ in Thousands)



Note: The fiscal 2021 appropriation includes general salary increases. The fiscal 2022 allowance includes the annual salary review and the annualization of general salary increases.

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Fiscal 2021

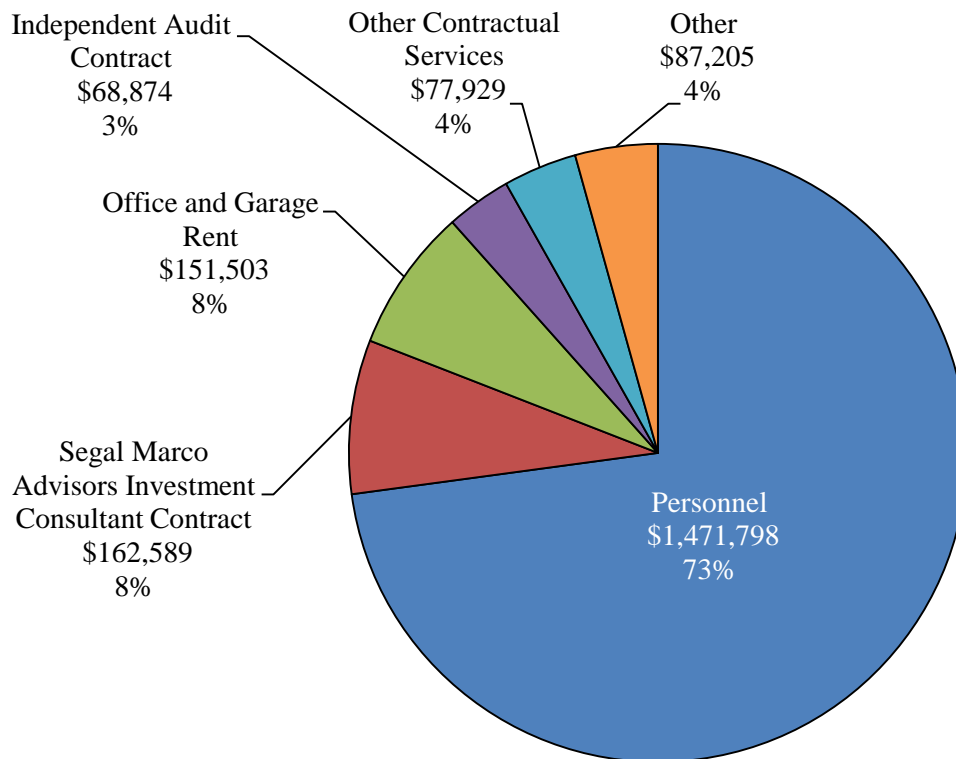
Cost Containment

The Board of Public Works reduced personnel costs at MSRP by \$2,767 in special funds.

Fiscal 2022 Overview of Agency Spending

As shown in **Exhibit 1**, nearly three-quarters of MSRP’s fiscal 2022 allowance is for agency personnel costs. Other large costs include funding for office and garage leases (7.5%) and contractual services (15.3%). MSRP’s two largest contracts are for investment consulting with Segal Marco Advisors and for an independent audit.

Exhibit 1
Overview of Agency Spending
Fiscal 2022 Allowance



Source: Governor’s Fiscal 2022 Budget Books

Proposed Budget Change

The adjusted fiscal 2022 allowance decreases by \$2,348, or 0.1%, as shown in **Exhibit 2**.

Exhibit 2
Proposed Budget
Maryland Supplemental Retirement Plans
(\$ in Thousands)

How Much It Grows:	Special Fund	Reimb. Fund	Total
Fiscal 2020 Actual	\$1,834	\$0	\$1,834
Fiscal 2021 Working Appropriation	2,022	0	2,022
Fiscal 2022 Allowance	<u>2,020</u>	<u>0</u>	<u>2,020</u>
Fiscal 2021-2022 Amount Change	-\$2	\$0	-\$2
Fiscal 2021-2022 Percent Change	-0.1%		-0.1%

Where It Goes:

Personnel Expenses

Regular earnings	-\$5
January 2021 cost of living annualization	13
Annual salary review	10
Employee and retiree health insurance	-22
Workers' compensation premium assessment	-7
Other fringe benefit adjustments	-1

Other Changes

Contractual services	6
Other changes	4

Total **-\$2**

Note: Numbers may not sum to total due to rounding.

Personnel Data

	<u>FY 20</u> <u>Actual</u>	<u>FY 21</u> <u>Working</u>	<u>FY 22</u> <u>Allowance</u>	<u>FY 21-22</u> <u>Change</u>
Regular Positions	13.00	14.00	14.00	0.00
Contractual FTEs	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Personnel	13.00	14.00	14.00	0.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	0.15	1.04%
Positions and Percentage Vacant as of 12/31/20	2.00	14.29%
Vacancies Above Turnover	1.85	

Key Observations

1. Investments Meet Benchmarks, Reserve Balance Continues Growth

As shown in **Exhibit 3**, MSRP options slightly exceeded benchmarks in fiscal 2020 for all but the one-year period. In the past five fiscal years, MSRP options have generally met or outperformed plan benchmarks.

Exhibit 3
MSRP Average Rates of Return
Fiscal 2015-2020

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>
Annual Average Rates of Return as of June 30, 2020				
Maryland Supplemental Retirement Plans (MSRP) Options	6.2%	9.7%	6.9%	10.1%
Benchmark Indices	6.5%	9.6%	6.7%	10.0%
Annual Average Rates of Return as of June 30, 2019				
MSRP Options	6.6%	10.3%	6.9%	11.0%
Benchmark Indices	6.7%	10.2%	6.9%	10.7%
Annual Average Rates of Return as of June 30, 2018				
MSRP Options	10.1%	8.0%	9.5%	8.1%
Benchmark Indices	9.8%	7.9%	9.2%	7.7%
Annual Average Rates of Return as of June 30, 2017				
MSRP Options	14.5%	6.0%	10.4%	6.2%
Benchmark Indices	14.1%	5.9%	10.2%	5.7%
Annual Average Rates of Return as of June 30, 2016				
MSRP Options	-0.3%	7.6%	7.5%	6.4%
Benchmark Indices	0.5%	7.6%	7.6%	6.1%
Annual Average Rates of Return as of June 30, 2015				
MSRP Options	3.6%	13.0%	12.6%	7.6%
Benchmark Indices	3.8%	12.7%	12.6%	7.0%

MSRP: Maryland Supplemental Retirement Plans

Source: Governor’s Fiscal 2022 Budget Books

Exhibit 4 compares MSRP investment performance with benchmark indices as of September 2020. Two large cap stock funds – American Century Equity Growth and American Funds Growth – underperformed benchmark indices in all time periods. T. Rowe Price Mid-Cap Value also underperformed in all time periods. Underperformance of a fund may put a fund on watch but does not necessarily result in removal. Long-term performance is prioritized over short-term results.

Exhibit 4
MSRP Investment Performance
Compared with Benchmark Indices
As of September 2020

	<u>1-year</u>	<u>3-year</u>	<u>5-year</u>	<u>10-year</u>
Bond Funds				
TCW Core Fixed Income Fund I	✓	✓	✗	✓
Balanced Funds				
Fidelity Puritan Fund	✗	✗	✗	✓
T. Rowe Price Retirement Balanced	✗	✗	✗	✓
Large Cap Stock Funds				
Parnassus Core Equity	✓	✓	✓	✓
American Century Equity Growth	✗	✗	✗	✗
American Funds Growth	✗	✗	✗	✗
Delaware Value Fund Institutional Class	✗	✗	✓	✓
Mid Cap Stock Funds				
Janus Enterprise N	✓	✓	✓	-
T. Rowe Price Mid-Cap Value	✗	✗	✗	✗
Small Cap Stock Fund				
T. Rowe Price Small Cap Stock	✓	✓	✓	✓
International Stock Fund				
American Funds Euro Pacific Growth	✓	✓	✓	✓

MSRP: Maryland Supplemental Retirement Plans

✓ Fund equaled or beat benchmark index

✗ Fund underperformed benchmark index

Source: Maryland Supplemental Retirement Plans; Segal Advisors

MSRP revenues continue to increase at a faster pace than expenditures, resulting in substantial fund balances in excess of the board of trustees' target of 25% of operating expenses. The board responded with fee holidays in calendar 2013 to 2016. The last asset fee holiday was from January to June 2018. **Exhibit 5** shows the plans' assets, participant fees, and the agency's operating budget from fiscal 2015 to 2021.

Exhibit 5
Assets and Participants Fees
Fiscal 2015-2021 Est.

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021 Est.</u>
Net Total Assets (\$ in Billions)	\$3.42	\$3.38	\$3.74	\$4.02	\$4.17	\$4.92	\$4.37
Plan Administrator Fees	\$2,941,840	\$2,807,945	\$3,102,426	\$4,055,312	\$3,697,123	\$3,721,081	\$3,832,713
As Percent of Assets*	0.09%	0.08%	0.08%	0.10%	0.09%	0.08%	0.09%
Board Asset Fee	\$1,107,118	\$1,080,654	\$1,755,171	\$1,055,427	\$1,976,369	\$1,839,296	\$1,870,000
As Percent of Assets	0.03%	0.03%	0.05%	0.03%	0.05%	0.04%	0.04%
\$0.50 Monthly Charge Per Account	359,090	362,942	366,465	370,090	229,461	380,929	384,738
One-time Settlement Revenue	13,660		122,406	69,765	0	2,094	0
Adjustment for Timing Differences*	131,498	9,939	-17,007	0	143,175	-142,156	143,175
Total Board Revenue	\$1,611,366	\$1,453,535	\$2,227,035	\$1,495,282	\$2,349,005	\$2,078,069	\$2,397,913
Operating Expenses	\$1,666,333	\$1,673,956	\$1,782,930	\$2,016,003	\$1,807,147	\$1,834,045	\$2,011,190
Adjustment for Timing Differences*	-13,941	-3,600	142	00	2,499	-22,924	00
Total Operating Expenses	\$1,652,392	\$1,670,356	\$1,783,072	\$2,016,003	\$1,809,646	\$1,811,121	\$2,011,190
Carryover Balance	\$568,696	\$351,875	\$795,838	\$275,116	\$814,475	\$1,081,423	\$1,468,146
Carryover Balance as Percent of Operating Expenses	34.4%	21.1%	44.6%	13.6%	45.0%	59.7%	73.0%

* Timing adjustment is needed to align with Financial Management Information System accounting. Expenditures are budgeted on a fiscal year, while plans and revenues are on calendar years.

Source: Maryland Supplemental Retirement Plans

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At the end of fiscal 2020, the board of trustees had a reserve fund equal to 60% of the annual appropriation, more than double the fund balance target of 25%. The board has permanently reduced asset fees from 0.05% to 0.0425%, effective October 1, 2019. However, it is estimated that the balance will be nearly three times the target at the close of fiscal 2021. **The Department of Legislative Services recommends that MSRP discuss why a fee reduction or fee holidays are not warranted.**

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

Updates

- **Growth in Number of Contributing Members:** As shown in **Exhibit 6**, the number of contributing members grew by 7.1% in fiscal 2020, the largest growth in at least 10 years.

Exhibit 6
Maryland Supplemental Retirement Plans Members and Contributing Members
Fiscal 2011-2020

<u>Fiscal Year</u>	<u>Total Members</u>	<u>% Change</u>	<u>% Eligible</u>	<u>Contributing Members</u>	<u>% Change</u>	<u>% Eligible</u>
2011	58,993		75%	36,184		46%
2012	58,121	-1.5%	76%	35,263	-2.5%	46%
2013	57,477	-1.1%	74%	34,373	-2.5%	44%
2014	57,486	0.0%	74%	33,932	-1.3%	44%
2015	58,311	1.4%	74%	34,302	1.1%	44%
2016	59,144	1.4%	76%	34,175	-0.4%	44%
2017	59,632	0.8%	77%	34,219	0.1%	44%
2018	60,696	1.8%	78%	34,278	0.2%	44%
2019	61,703	1.7%	79%	34,214	-0.2%	44%
2020	62,322	1.0%	80%	36,644	7.1%	44%

Source: Governor’s Fiscal 2022 Budget Books

Appendix 1
Teachers’ and State Employees’ Supplemental Retirement Plans
Plan Characteristics
Calendar 2020

<u>Plan Characteristic</u>	<u>401(k)</u>	<u>457(b)</u>	<u>403(b)</u>
Participation	State employees	State employees	Employees of State educational institutions
Contribution Option	Tax-deferred; after-tax Roth	Tax-deferred; after-tax Roth	Tax-deferred
Contribution Limit	\$19,500	\$19,500	\$19,500
Catch-up Provision for Employees Over 50	\$6,500	\$6,500	\$6,500
Withdrawal While Employed	Age 59.5, or hardship	Age 70.5, or unforeseeable emergency	Age 59.5, or hardship
Avoid 10% Premature Withdrawal Penalty	Leave State employment at age 55 or older, or at age 59.5 regardless of employment	Leaving State employment	Leave State employment at age 55 or older, or at age 59.5 regardless of employment

Source: Maryland Supplemental Retirement Plans

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- Tax-deferred plans mean that the account may grow by additional contributions and investment earnings without paying income taxes until those amounts are withdrawn from the plans.
 - Since April 2011, after-tax Roth contributions are permitted into 457(b) and 401(k) plans directly from payroll, which means that no further taxes will be due on these contributions or earnings on eligible payouts from the plans.
 - When participating in both a 457(b) and 401(k) plan, or participating in both a 457(b) and 403(b) plan, a member may contribute up to the maximum annual contribution limit (\$19,000) to each plan, for a total of \$38,000 annually.
 - If a member is participating in both the 401(k) and 403(b) plan, a member may not contribute higher than \$19,000 (or \$25,000 if using the age 50 catch-up provision) annually.
 - The State matching program under Internal Revenue Code Section 401(a) provided to eligible employees’ 457(b), 401(k), and 403(b) plans has been suspended since fiscal 2010.

**Appendix 2
Object/Fund Difference Report
Maryland Supplemental Retirement Plans**

<u>Object/Fund</u>	<u>FY 20 Actual</u>	<u>FY 21 Working Appropriation</u>	<u>FY 22 Allowance</u>	<u>FY 21 - FY 22 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	13.00	14.00	14.00	0.00	0%
Total Positions	13.00	14.00	14.00	0.00	0%
Objects					
01 Salaries and Wages	\$ 1,358,475	\$ 1,467,802	\$ 1,433,345	-\$ 34,457	-2.3%
02 Technical and Spec. Fees	0	3,850	3,850	0	0%
03 Communication	7,648	6,250	6,250	0	0%
04 Travel	14,150	27,074	27,074	0	0%
07 Motor Vehicles	10,920	11,760	11,760	0	0%
08 Contractual Services	264,397	303,329	309,392	6,063	2.0%
09 Supplies and Materials	9,821	17,500	20,000	2,500	14.3%
11 Equipment – Additional	8,558	12,885	12,885	0	0%
13 Fixed Charges	160,076	160,740	160,739	-1	0%
Total Objects	\$ 1,834,045	\$ 2,011,190	\$ 1,985,295	-\$ 25,895	-1.3%
Funds					
03 Special Fund	\$ 1,833,644	\$ 2,011,190	\$ 1,985,295	-\$ 25,895	-1.3%
09 Reimbursable Fund	401	0	0	0	0.0%
Total Funds	\$ 1,834,045	\$ 2,011,190	\$ 1,985,295	-\$ 25,895	-1.3%

Note: The fiscal 2021 appropriation does not include deficiencies, targeted revenues, or across-the-board reductions. The fiscal 2022 allowance does not include contingent reductions or cost-of-living adjustments.