

G50L00

Maryland Supplemental Retirement Plans

Program Description

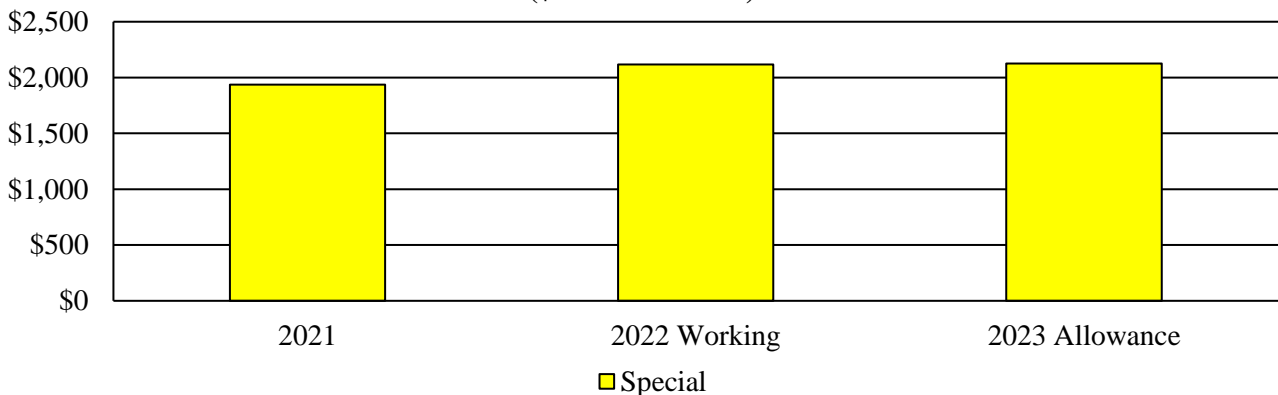
The Maryland Teachers' and State Employees' Supplemental Retirement Plans are administered by a board of trustees, as established in Title 35 of the State Personnel and Pensions Article. The board has responsibility over four plan options: 401(k) and 457(b) plans for State employees; 403(b) plans for employees of State educational institutions; and a 401(a) State matching plan that has been suspended since fiscal 2010.

The Maryland Supplemental Retirement Plans (MSRP) staff support 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, 2021, 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 2023 Budget Increases \$7,992, or 0.4%, to \$2.1 Million
(\$ in Thousands)



Note: The fiscal 2022 working appropriation and fiscal 2023 allowance do not reflect funding for statewide personnel actions budgeted in the Department of Budget and Management, which include cost-of-living adjustments, increments, bonuses, and may include annual salary review adjustments.

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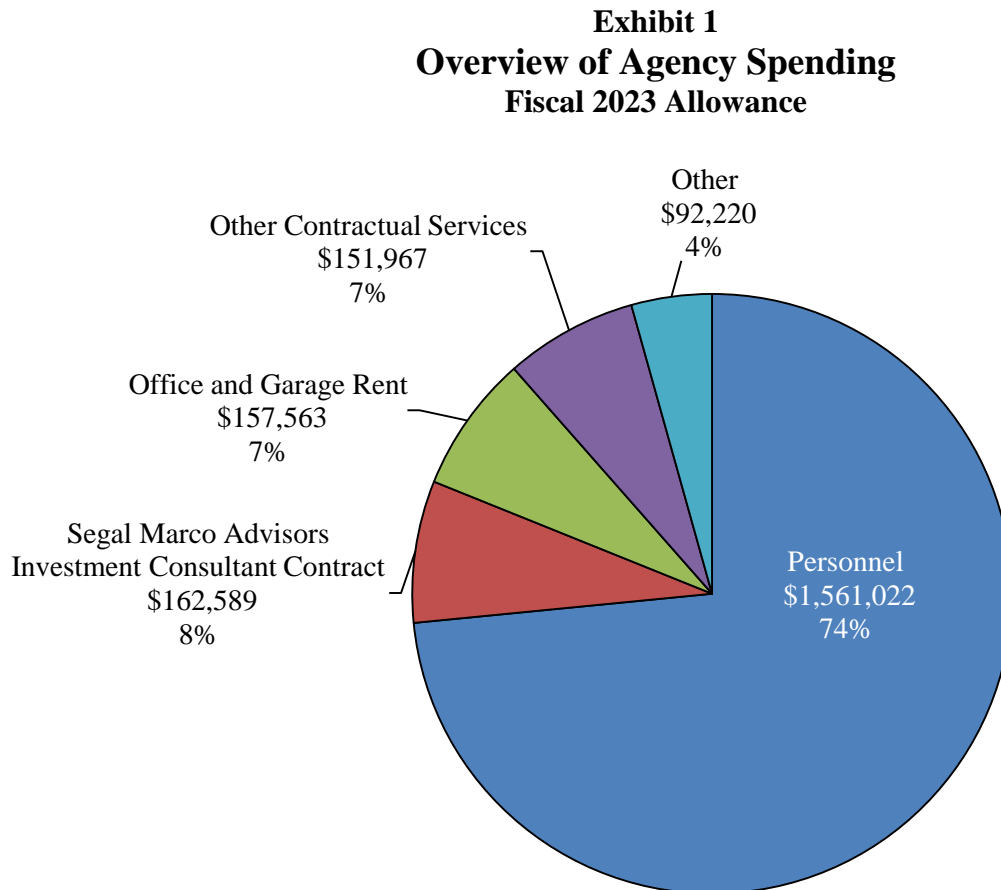
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Fiscal 2022 Deficiency

The Governor’s allowance includes a fiscal 2022 deficiency appropriation of \$95,000 in special funds for an information technology upgrade. The conversion replaced outdated computer systems, updated cybersecurity to comply with State protocols, and replaced the organization’s website.

Fiscal 2023 Overview of Agency Spending

As shown in **Exhibit 1**, nearly three-quarters of MSRP’s fiscal 2023 allowance is for agency personnel costs. Other large costs include funding for office and garage leases (7.4%) and contractual services (14.8%). MSRP’s largest contract is for investment consulting with Segal Marco Advisors.



Source: Governor’s Fiscal 2023 Budget Books

Proposed Budget Change

The fiscal 2023 allowance increases by \$7,992, or 0.4%, as shown in **Exhibit 2**. Increases in employee and retiree health insurance contributions are offset by reductions in contractual costs.

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

How Much It Grows:	<u>Special Fund</u>	<u>Total</u>
Fiscal 2021 Actual	\$1,936	\$1,936
Fiscal 2022 Working Appropriation	2,117	2,117
Fiscal 2023 Allowance	<u>2,125</u>	<u>2,125</u>
Fiscal 2022-2023 Amount Change	\$8	\$8
Fiscal 2022-2023 Percent Change	0.4%	0.4%

Where It Goes:	<u>Change</u>
Personnel Expenses	
Employee and retiree health insurance	\$69
Turnover adjustments	14
Regular earnings	5
Other fringe benefit adjustments.....	3
Other Changes	
Other contractual changes.....	65
Rent.....	6
DoIT services allocation	5
Other	-4
Segal Rogers Casey investment consulting contract	-60
Fiscal 2022 deficiency for IT upgrades	-95
Total	\$8

DoIT: Department of Information Technology
IT: information technology

Note: Numbers may not sum to total due to rounding. The fiscal 2022 working appropriation and fiscal 2023 allowance do not reflect deficiencies or funding for statewide personnel actions budgeted in the Department of Budget and Management, which include cost-of-living adjustments, increments, bonuses, and may include annual salary review adjustments.

Personnel Data

	<u>FY 21</u> <u>Actual</u>	<u>FY 22</u> <u>Working</u>	<u>FY 23</u> <u>Allowance</u>	<u>FY 22-23</u> <u>Change</u>
Regular Positions	14.00	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	14.00	14.00	14.00	0.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	0.00	0.00%
Positions and Percentage Vacant as of 12/31/21	1.00	7.14%
Vacancies Above Turnover	1.00	

Key Observations

1. Fund Balance Larger Than Target

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 and 2018. The board also suspended fees in the first half of calendar 2021. **Exhibit 3** shows the plans' assets, participant fees, and the agency's operating budget from fiscal 2016 to 2022.

Exhibit 3
Assets and Participants Fees
Fiscal 2016-2022

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022 Est.</u>
Net Total Assets (\$ in Billions)	\$3.38	\$3.74	\$4.02	\$4.17	\$4.92	\$5.34	\$6.14
Plan Administrator Fees	\$2,807,945	\$3,102,426	\$4,055,312	\$3,697,123	\$3,721,081	\$4,892,555	\$4,940,000
As Percent of Assets*	0.08%	0.08%	0.10%	0.09%	0.08%	0.09%	0.08%
Board Asset Fee	\$1,080,654	\$1,755,171	\$1,055,427	\$1,976,369	\$1,839,296	\$1,450,726	\$2,380,000
As Percent of Assets	0.03%	0.05%	0.03%	0.05%	0.04%	0.03%	0.04%
\$0.50 Monthly Charge Per Account	362,942	366,465	370,090	229,461	380,929	483,602	396,000
One-time Settlement Revenue		122,406	69,765	0	2,094	63,974	0
Adjustment for Timing Differences**	9,939	-17,007	0	143,175	-142,156	-33,373	0
Total Board Revenue	\$1,453,535	\$2,227,035	\$1,495,282	\$2,349,005	\$2,080,163	\$1,964,929	\$2,776,000
Operating Expenses	\$1,673,956	\$1,782,930	\$2,016,003	\$1,807,147	\$1,834,045	\$1,935,723	\$1,985,000
Adjustment for Timing Differences**	-3,600	142	0	2,499	-22,924	0	0
Total Operating Expenses	\$1,670,356	\$1,783,072	\$2,016,003	\$1,809,646	\$1,811,121	\$1,935,723	\$1,985,000
Carryover Balance	\$351,875	\$795,838	\$275,116	\$814,475	\$1,083,517	\$1,112,723	\$1,903,723
Carryover Balance as Percent of Operating Expenses	21.1%	44.6%	13.6%	45.0%	59.8%	57.5%	95.9%

* 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.

** Five-month asset fee holiday from March 2021-July 2021

Source: Maryland Supplemental Retirement Plans

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At the end of fiscal 2021, the board of trustees had a reserve fund equal to 54% of the annual appropriation, more than double the fund balance target of 25%. The board permanently reduced asset fees from 0.05% to 0.0425% effective October 1, 2019, and provided a fee holiday for the first five months of calendar 2021. While the strong returns are clearly beneficial to plan participants, it does lead to higher fee revenues as the fees are a percentage of assets. It is estimated that the fund balance will be nearly double the target at the close of fiscal 2022. **The Department of Legislative Services recommends that MSRP comment on whether there will be another fee holiday in fiscal 2022 or 2023.**

2. Fiscal 2021 Plan Performance Exceeds Benchmarks

As shown in **Exhibit 4**, MSRP options far outpaced benchmarks in fiscal 2021 and have met or outperformed plan benchmarks over longer time periods.

Exhibit 4
MSRP Average Rates of Return
Fiscal 2016-2021

	<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, 2021				
Maryland Supplemental Retirement Plans Options	30.7%	13.3%	12.8%	10.3%
Benchmark Indices	12.9%	12.9%	12.4%	10.0%
Annual Average Rates of Return as of June 30, 2020				
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%

MSRP: Maryland Supplemental Retirement Plans

Source: Governor's Fiscal 2023 Budget Books

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

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Appendix 1
Maryland Supplemental Retirement Plans Members and Contributing Members
Fiscal 2011-2021

<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%
2021	61,655	-1.1%	79%	35,463	-3.2%	46%

Source: Governor's Fiscal 2023 Budget Books

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

<u>Object/Fund</u>	<u>FY 21 Actual</u>	<u>FY 22 Working Appropriation</u>	<u>FY 23 Allowance</u>	<u>FY 22 - FY 23 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	14.00	14.00	14.00	0.00	0%
Total Positions	14.00	14.00	14.00	0.00	0%
Objects					
01 Salaries and Wages	\$ 1,304,299	\$ 1,470,419	\$ 1,561,022	\$ 90,603	6.2%
02 Technical and Special Fees	0	3,850	3,850	0	0%
03 Communication	10,534	6,250	6,250	0	0%
04 Travel	0	27,074	27,074	0	0%
07 Motor Vehicles	10,920	11,760	11,760	0	0%
08 Contractual Services	391,297	309,392	314,556	5,164	1.7%
09 Supplies and Materials	32,572	20,000	20,000	0	0%
11 Equipment – Additional	24,599	12,885	12,885	0	0%
13 Fixed Charges	161,502	160,739	167,964	7,225	4.5%
Total Objects	\$ 1,935,723	\$ 2,022,369	\$ 2,125,361	\$ 102,992	5.1%
Funds					
03 Special Fund	\$ 1,935,723	\$ 2,022,369	\$ 2,125,361	\$ 102,992	5.1%
Total Funds	\$ 1,935,723	\$ 2,022,369	\$ 2,125,361	\$ 102,992	5.1%

Note: The fiscal 2022 working appropriation and fiscal 2023 allowance do not reflect deficiencies or funding for statewide personnel actions budgeted in the Department of Budget and Management, which include cost-of-living adjustments, increments, bonuses, and may include annual salary review adjustments.