Joint Committee on Pensions

2014 INTERIM REPORT

Annapolis, Maryland
January 2015

Contributing Staff

Writers
Phillip S. Anthony
Michael C. Rubenstein
Dana K. Tagalicod

For further information concerning this document contact:

Library and Information Services
Office of Policy Analysis
Department of Legislative Services
90 State Circle
Annapolis, Maryland 21401

Baltimore Area: 410-946-5400 ● Washington Area: 301-970-5400
Other Areas: 1-800-492-7122, Extension 5400
TDD: 410-946-5401 ● 301-970-5401
Maryland Relay Service: 1-800-735-2258
E-mail: libr@mlis.state.md.us
Home Page: http://mgaleg.maryland.gov

The Department of Legislative Services does not discriminate on the basis of age, ancestry, color, creed, marital status, national origin, race, religion, gender, gender identity, sexual orientation, or disability in the admission or access to its programs, services, or activities. The Department's Information Officer has been designated to coordinate compliance with the nondiscrimination requirements contained in Section 35.107 of the Department of Justice Regulations. Requests for assistance should be directed to the Information Officer at the telephone numbers shown above.

MARYLAND GENERAL ASSEMBLY

JOINT COMMITTEE ON PENSIONS

December 18, 2014

The Honorable Thomas V. Mike Miller, Jr., Co-Chairman
The Honorable Michael E. Busch, Co-Chairman
Members of the Legislative Policy Committee

Ladies and Gentlemen:

The Joint Committee on Pensions herewith submits a report of its 2014 interim activities and legislative recommendations. The joint committee met twice during the 2014 interim and addressed one pension topic and seven legislative proposals requested by the Board of Trustees for the State Retirement and Pension System pertaining to retirement and pensions during these meetings. The joint committee made recommendations on these items at its final meeting for the 2014 interim. The joint committee also had its annual briefings on the actuarial valuation of the system and the system's investments.

We thank the joint committee members for their diligence and attention to the work of the committee. Also, on behalf of the committee members, we thank Phillip S. Anthony, Dana K. Tagalicod, Michael C. Rubenstein, and Cathy Kramer of the Department of Legislative Services and the staff of the Maryland State Retirement Agency for their assistance.

Sincerely,

Verna L. Jones-Rodwell
Senate Chair

Melony G. Griffith
House Chair

VJR:MGG/PSA:DKT:MCR/eck

Enclosure

cc: Mr. Karl S. Aro
Mr. Warren G. Deschenaux
Ms. Lynne B. Porter

Room 226 Legislative Services Building · 90 State Circle · Annapolis, Maryland 21401-1991
410-946-5510 · Fax 410-946-5529 · TTY 410-946-5401
301-970-5510 · Fax 301-970-5529 · TTY 301-970-5401

Maryland General Assembly
Joint Committee on Pensions
2014 Membership Roster

Senators

Verna L. Jones-Rodwell, Chair
Nathaniel J. McFadden
Joseph M. Getty
George C. Edwards
Edward J. Kasemeyer
Richard S. Madaleno, Jr.
James N. Robey
Roger Manno

Delegates

Melony G. Griffith, Chair
Susan L. M. Aumann
Gail H. Bates
Keith E. Haynes
Mary-Dulany James
Adrienne A. Jones
Galen R. Clagett
Craig J. Zucker

Committee Staff

Phillip S. Anthony
Dana K. Tagalicod

Contents

Joint Committee on Pensions
2014 Interim Report

Over the course of two meetings during the 2014 interim, the Joint Committee on Pensions addressed one pension topic and seven legislative proposals requested by the Board of Trustees for the State Retirement and Pension System (SRPS).

Results of 2014 Actuarial Valuation and Fiscal 2016 Contribution Rates

Exhibit 1 shows that the employer contribution rate for teachers will increase from 16.53% in fiscal 2015 to 17.27% in fiscal 2016, and the employer contribution rate for State employees will increase from 16.45% in fiscal 2015 to 17.70% in fiscal 2016. The aggregate State contribution rate, including contributions for public safety employees and judges, increases from 17.44% in fiscal 2015 to 18.32% in fiscal 2016. Based on projected payroll growth and other factors, the SRPS actuary estimates that total employer pension contributions will increase by $141.4 million, from $1.70 billion in fiscal 2015 to $1.85 billion in fiscal 2016. These funding rates and contribution amounts are inclusive of the required supplemental contributions required by Chapter 464 of 2014 and the adjustment for the corridor funding method for the Teachers' and Employees' Combined systems.

Exhibit 1
State Pension Contributions
Fiscal 2015 and 2016

	2015		2016	
Plan	Rate (%)	$ in Millions	Rate (%)	$ in Millions
Teachers	16.53%	$1,057.6	17.27%	$1,126.6
Employees	16.45%	523.9	17.70%	591.3
State Police	84.73%	71.2	81.24%	73.2
Judges	42.74%	18.0	40.70%	18.1
Law Enforcement Officers	43.10%	38.4	42.14%	41.2
Aggregate	**17.44%**	**$1,709.0**	**18.32%**	**$1,850.4**

Note: Except for the Teachers' Combined System (TCS), contribution rates and dollar amounts reflect State funds only, excluding municipal contributions. For TCS, they reflect the combined total of State and local contributions. Figures also reflect the supplemental contributions established by Chapter 464 of 2014.

Source: Gabriel, Roeder, Smith & Co.

Employer contribution rates were subject to multiple influences this year, some exerting upward pressure and others downward pressure. For the first time in recent memory, investment returns exerted downward pressure on contribution rates. Chapters 475 and 476 of 2013 replaced the previous tiered amortization schedule with a single 25-year closed amortization period. By spreading out payment of existing unfunded liabilities over 25 years, Chapters 475 and 476 exerted substantial downward pressure on contribution rates.

Going forward, another provision of Chapters 475 and 476 will continue to exert mild upward pressure on contribution rates, thereby help improving the system's financial condition. In addition to altering the amortization policy, Chapters 475 and 476 phase out the corridor funding method over 10 years, which has restricted the growth of contribution rates for the Teachers' Combined System and the Employees' Combined System, the two largest plans within SRPS. Under the corridor method adopted during the 2002 legislative session, the employer contributions in the two plans increased by an amount equal to 20% of the difference between the prior year's rate and the "true" rate required to fully fund the systems. By phasing out the corridor method, Chapters 475 and 476 ensure that in each succeeding year the budgeted corridor contribution rate will move closer to the higher actuarially determined rate necessary to fully fund the system until they are equal in 2024.

State Retirement and Pension System Investment Performance

The system's investment return for fiscal 2014 was 14.4% net of management fees, exceeding its investment return target of 7.70% for the fourth time in the last five years. Public equity markets continued its two-year run of strong performance. Broad indices of public equities were all strongly higher: the U.S. domestic Standard & Poor's 500 index rose 24.6% and the Morgan Stanley Capital international index rose 21.8%. With public equities making up 38.9% of the portfolio, this strong performance propelled the system to generate returns well in excess of its target.

The system's assets totaled $45.4 billion as of June 30, 2014. This represents an all-time fiscal year-end record, and it is the second year in a row that the fund has exceeded the $40.0 billion level. As noted above, the strongest performing asset classes in fiscal 2013 were public equity (22.1%), private equity (19.6%), and real estate (14.2%). Driven by low interest rates and low inflation, the two weakest classes were real return (7.0%) and fixed income (4.6%).

Despite its investment return of 14.4%, the system's fiscal 2014 investment performance was among the worst of 25 public pension funds with at least $25 billion in assets according to the Trust Universe Comparison Service (TUCS). The system's fiscal 2014 performance placed it at the ninety-fourth percentile. In the TUCS analysis, the one-hundredth percentile is the lowest ranking, and the first percentile is the highest. Long-term performance rankings place SRPS either in or near the bottom quartile for every timeframe examined. TUCS rankings are based on returns gross of fees. The low TUCS ranking is attributable to the system having a lower allocation to equity investments than its peer systems; as equity investments performed very well in fiscal 2014, systems with higher allocations to equity had greater returns.

Briefing on Optional Membership of Elected and Appointed Officials in the Employees' Pension System

Under current law, certain elected and appointed officials are required to join the Employees' Pension System (EPS). Chapter 636 of 2014 charged the State Retirement Agency (SRA) with studying the issue of optional membership for elected and appointed officials in the EPS. SRA provided a historical overview of the optional membership provision as it evolved in State pension law to its current posture, and made recommendations regarding the future of optional membership for elected and appointed officials.

The issue of membership in the Employees' Retirement System (ERS) first appeared in 1941. Membership was made optional for elected officials and appointed officials, due to the fact that the system had a 20-year vesting period. Chapter 532 of 2004 brought the first major change to optional membership since its inception in 1941. Chapter 532 was legislation sponsored by the Joint Committee on Pensions at the request of the Board of Trustees for SRPS. The legislation made participation in EPS a requirement for elected and appointed officials who take their position on or after July 1, 2004. Testimony for the board stated that it believed that membership had been optional in the past due to onerous vesting requirements, making it almost impossible for individuals in these positions to earn a benefit from ERS or EPS. That said, in 2004, an EPS member was required to accrue only five years of eligibility service to vest in the system. Because the EPS members can earn a year of eligibility service for any fiscal year in which they work 500 hours, it was possible at that time for elected and appointed officials to accrue five years of eligibility service during four calendar years and be vested after serving one term of office. Moreover, SRA noted that requiring these individuals to join EPS would ensure that they were protected with disability and death benefits.

From 2008 through 2014, various bills were introduced on behalf of participating governmental units that joined SRPS during that period of time. University Park (Chapter 632 of 2009) and Sykesville (Chapter 413 of 2009) had legislation enacted to ensure that membership in EPS was mandatory for all of the employees of each of the towns, regardless if any of the employees were employed on the effective date of participation and also employed on or before June 30, 2004. Conversely, Berwyn Heights (Chapter 171 of 2008) and College Park (Chapter 635 of 2014) had legislation enacted to provide optional membership in EPS to all current employees employed by the entities prior to the effective date of participation. Finally, Chapter 636 of 2014 provided optional membership for various appointed officials of Prince George's County.

SRA reported that its review of the legislation enacted since the passage of Chapter 532 of 2004 would suggest that local governments would prefer a return to optional membership for their elected and appointed officials. This is supported by the fact that the argument to move to mandatory membership because vesting had been reduced from 20 to 5 years over the period of time optional membership had been in place, is no longer relevant. With a return to longer vesting (10 years), local elected and appointed officials now have to serve two and one-half terms before becoming eligible for retirement. Moreover, there may be towns and municipalities participating in SRPS that have two-year terms of office for their elected and appointed officials, which in turn would make vesting even more cumbersome.

In addition, these individuals are required to contribute 7% of their annual salary toward a benefit for which they may not become eligible. The employers for local elected and appointed officials have also expressed concern that they will be required to make employee contributions on behalf of these individuals. Yet, unlike the nonvested member who may receive a return of the member's accumulated contributions at the time the member stops serving as an elected or appointed official, the employer will not receive a return of employer contributions made on behalf of this individual.

In light of the concerns that have been raised by both local elected and appointed officials and their employers, SRA recommended amending § 23-204 of the State Personnel and Pensions Article to more closely reflect the wording of the original optional membership statutes during the period from 1941 through 1961. During that time period, membership was optional for "any class of elected officials, or with any class of officials appointed for fixed terms." Language similar to this, or perhaps with even more specific identifying criteria, would provide SRA with guidance in determining whether an individual is, in fact, an appointed official.

Additionally, SRA staff recommended similar language from the first versions of the optional membership provisions that placed a statute of limitations on the time period during which an elected or appointed official could elect membership in EPS. A 12-month statute of limitations to elect to join EPS would be consistent with the time period that the legislature provided members to elect to join the Teachers' Pension System (TPS) or the Optional Retirement Plan (ORP). Further, stipulating a definite period of time when the election to participate shall be made satisfies concerns raised by SRA's tax counsel in 2006 when the time constraints were placed on members choosing between TPS and ORP.

The joint committee discussed the issues arising out of the mandatory membership of local elected and appointed officials. The joint committee did not elect to sponsor legislation on the topic for the 2015 legislative session but encouraged the introduction of legislation to foster further discussion of this topic.

Board Requested Legislation

Judges' Retirement System – Withdrawal of Accumulated Contributions

When members of several systems leave prior to vesting in their respective plans, SRA advises these individuals of the options to either withdraw their accumulated contributions or to leave it in SRPS if they think they may be returning to State service prior to their membership period ending. However, those members who may initially choose to leave their contributions with SRPS may reconsider their decision and withdraw their contributions at any time.

In 2012, legislation was enacted that would require new members of the Judges' Retirement System (JRS) to accrue five years of service in order to vest in JRS. Prior to this time, members of JRS enjoyed immediate vesting in their plan. As a result of the vesting requirement, an individual could be appointed to the bench and leave the Judiciary within five years and never vest in the plan. Yet, unlike members of the other plans in SRPS who may withdraw their contributions at any time after terminating employment, language under § 27-405 of the State Pensions and Personnel Article restricts JRS members to withdrawing their employee contributions "at the time of termination of service, or within six months thereafter." As no other plan includes a similar limiting provision, the board recommended removing the limitations in place for a JRS member to withdraw employee contributions.

The joint committee will sponsor the requested legislation. Additionally, the joint committee voted to add provisions to JRS pertaining to the termination of membership in JRS as well as the accumulation of interest on member contributions of nonvested former members to make JRS consistent with the other plans in SRPS.

Judges' Retirement System – Reemployment

Section 27-406 of the State Personnel and Pensions Article governs reemployment of JRS retirees. During the 2010 legislative session, this provision was amended to exempt a retiree of JRS from a reemployment earnings limitation if the retiree returned to work for the State. This provision sunset on June 30, 2014. Instead of extending the sunset date on this exemption during the 2014 legislative session, the statute was amended to provide similar language included in the provisions governing other systems, stating that a member would only be subject to the earnings limitation for the first five calendar years following retirement. SRA has found that this amendment and others made since 2010 have created inconsistencies and duplicative language in this section, making it difficult to implement. The board recommended clarifying, nonsubstantive changes to remove this duplicative and inconsistent language.

The joint committee will sponsor the requested legislation.

Correctional Officers' Retirement System – Chapter 188 of 2014

Chapter 188 of 2014 added correctional officers who begin serving as security chiefs, facility administrators, assistant wardens, or wardens on or after July 1, 2014, as members of the Correctional Officers' Retirement System (CORS) as a condition of their employment. Chapter 188 further provides that correctional officers who were serving in those positions on June 30, 2014, would have six months to transfer their service credit from EPS to CORS if they continue serving in those positions on July 1, 2014. The legislation also stipulated that these transfers of service credit would be done in accordance with Title 37 of the State Personnel and Pensions Article.

SRA has determined that the legislation only allows correctional officers who were members of EPS the opportunity to transfer their EPS service credit into CORS. SRA has found two members of ERS who meet the criteria of the bill; however, due to their membership in ERS, they are currently not eligible to transfer their service credit back to CORS. The board recommended legislation to include members of ERS.

The joint committee will sponsor the requested legislation.

State Retirement and Pension System – "Non-contributory Pension Benefit" Definition

Section 20-101(aa-1) of the State Personnel and Pensions Article defines "non-contributory pension benefit" to mean "the part of the Employees' Pension System and Teachers' Pension System that does not provide the contributory pension benefit under Title 23, Subtitle 2, Part II of this article or the Alternate Contributory Pension Selection under Title 23, Subtitle 2, Part III of this article." When the Reformed Contributory Pension Benefit was created under Title 23, Subtitle 2, Part IV of the State Personnel and Pensions Article in 2011, it was inadvertently omitted from this definition. The board recommended amending § 20-101(aa-1) to include the Reformed Contributory Pension Benefit in the definition of "non-contributory pension benefit."

The joint committee will sponsor the requested legislation.

Unclaimed Accumulated Contributions

SRA reports that there are currently more than 38,000 nonvested accounts of individuals who have terminated employment with a participating employer of SRPS prior to vesting and did not withdraw their accumulated contributions at the time they ceased employment. Many of the accounts have a balance of less than $75. In an effort to return these funds to the former members, SRA makes three mailings to each account holder, requesting the individual to withdraw his or her accumulated contributions. SRA also posts notices on its website of the names of any inactive participant who is entitled to a refund of accumulated contributions. SRA previously used a now discontinued service where the Internal Revenue Service would forward letters to former nonvested members.

SRA believes that the new 10-year vesting period for new members will result in an increase in the number of nonvested accounts. The accumulated contributions associated with inactive accounts are deposited in SRPS's annuity savings fund. A member's accumulated contributions are reserved in this fund until the member retires, at which point the funds are transferred to SRPS's accumulation fund where payment of the member's retirement benefits begins. Because these former members are not vested, they are not eligible for a retirement allowance and so the account funds are not transferred to the accumulation fund. To avoid carrying these inactive nonvested accounts indefinitely in the annuity savings fund, the board recommends that after four years that the funds from these accounts would be transferred from the annuity savings account to the accumulation fund. Transferring these funds to the accumulation fund would not result in the inactive participant forfeiting the right to a return of the individual's accumulated contributions at any time in the future. SRA reports that it will maintain the necessary records on each inactive participant, making recovery of funds uncomplicated.

The board recommended amending §§ 21-303 and 21-311 of the State Personnel and Pensions Article to allow nonvested accounts of former members to be transferred from the annuity savings fund to the accumulation fund and later be returned to the inactive participant from the accumulation fund.

The joint committee will sponsor the requested legislation.

Accumulated Unused Sick Leave

Section 20-206 of the State Personnel and Pensions Article states that members of SRPS may receive additional creditable service for unused sick leave at the time of their retirement. "Unused sick leave" is defined as "sick leave credit that has not been used before retirement." At the time of a member's retirement, the employer is required to certify the balance of unused sick leave to SRA. Based on the unused sick leave balance reported by the employer, SRA calculates the additional credit that is added to the member's retirement record. A member may receive one month of service credit for 22 days of unused sick leave.

SRA has found that some participating employers, prior to reporting unused sick leave to SRA, are converting other types of leave into sick leave. In response to this, SRA has informed these employers that an employer may only report unused sick leave that was available to the employee as sick leave during employment. To avoid future inconsistent interpretations of § 20 206, the board recommended amending this section to clarify that only unused sick leave that was available to the employee as sick leave during employment may be reported by the employer to SRA.

The joint committee will sponsor the requested legislation.

Combining Prior Service Credit with the Reformed Contributory Pension Benefit

Chapters 577 and 578 of 2014 allow members of either EPS or TPS, who are subject to the Reformed Contributory Pension Benefit (RCPB) and have prior service credit in a part of EPS or TPS that has a different member contribution and benefit accrual, to combine their prior and current eligibility service credit in their RCPB account. In part, this legislation requires that a member may combine this prior eligibility service with their current RCPB eligibility credit if the member deposits the member contributions that would have been due if the member had earned the prior credit in the RCPB, plus regular interest on the contributions.

The member contribution rate for the RCPB is currently 7%, so RCPB members interested in combining previous EPS or TPS service with their current RCPB account will be required to deposit member contributions at this rate for previous service credit, plus interest. For example, if a member is combining previous service from the member's vested Alternate Contributory Pension Selection (ACPS) account (during which time the member was contributing 5%), the individual would be required to deposit an additional 2% in member contributions, plus regular interest. For members seeking to combine service from the contributory or noncontributory plans of EPS or TPS, the amount to be deposited would be greater, due to the difference in contribution rates.

The board recommended amending § 23-303.1 of the State Personnel and Pensions Article to clarify that when combining service into the RCPB, the member contribution rate in effect for the RCPB, at the time the request to combine service is made, is the rate that will be used to determine the amount that the participant will be required to deposit, with interest. SRA reported that this would codify the current practice of the agency.

The joint committee had an extensive discussion concerning the issues arising out of members combining prior vested service into the part of EPS or TPS in which they are currently enrolled. The joint committee did not elect to sponsor legislation on the topic for the 2015 legislative session but encouraged the introduction of legislation to foster further discussion of this topic.

Maryland State Retirement and Pension System

Results of the
June 30, 2014 Actuarial Valuation
For Fiscal 2016

November 18, 2014

GRS

Gabriel Roeder Smith & Company
Consultants & Actuaries
www.gabrielroeder.com

Copyright © 2014 GRS – All rights reserved.

Table of Contents

- 2014 Actuarial Valuation
- GASB Changes
- Appendix

10

GRS

Purpose of the Actuarial Valuation

- Measure the financial position of SRPS
- Provide the Board with State and PGU contribution rates for certification:
  - Allocate investment income among pools within Systems
  - Work closely with SRA staff exchanging and reconciling information
  - Determine amortization payments
- Determine actuarial and statutory contribution rates with reinvested savings for FY 2016
- Provide disclosure information for financial reporting
  - Provided by separate GASB 67 and 68 valuations
- Analyze aggregate experience over the last year

Funding Objectives

- Intergenerational equity with respect to plan costs
- Stable or increasing ratio of Assets to Liabilities
- Stable pattern of contribution rates

12

GRS

Variables Affecting Valuation Results

- Benefits (Retirement, Disability, Survivor)
- Actual past experience
- Legislative Changes
  - 2014 General Assembly reduced the schedule of reinvested savings
  - 2011 General Assembly reforms result in a gradually decreasing normal cost rate
- Assumption Changes
  - 7.65% investment return; 3.40% payroll growth; 2.90% CPI for June 30, 2014
  - The ultimate assumptions of 7.55% investment return, 3.30% payroll growth, and 2.80% CPI are being phased in over 4 years

Variables Affecting Valuation Results

- Funding Policy
  - 25-year closed amortization of unfunded actuarial accrued liability for each State System, ending in FY 2039 (24 years remaining in 2014 valuation)
  - 10-year phase out of corridor funding method for TCS and ECS, ending in 2022 valuation (8 years remaining)
- Actuarial Audit
  - Most audit recommendations will be deferred to the June 30, 2015 valuation
  - Recommendations included in the June 30, 2014 valuation:
    - An adjustment to the mortality table that affects disabled public safety participants.
    - Extending the retiree mortality tables from age 115 to 120.

Reduced Reinvested Savings

Legislation passed in 2014 by the General Assembly reduced the amount MSRPS would receive in reinvested savings.

Fiscal Year	Original Schedule	Reduced Schedule
2014	$300M	$100M
2015	$300M	$100M
2016	$300M	$150M
2017	$300M	$200M
2018	$300M	$250M
2019 & After	$300M	$300M, until the combined funded ratio reaches 85% and the corridor is fully phased out

Reduced Reinvested Savings

Effect of reduced reinvested savings on projected funded ratios and contribution requirements (for combined state systems):

	Funded Ratio		Contribution ($ millions)		Probability of 85% Funded
Year	Original Schedule	Reduced Schedule	Original Schedule	Reduced Schedule	Reduced Schedule
2015	68.9%	68.2%	$1,909	$1,708	< 1%
2016	69.7%	68.7%	$2,008	$1,869	1%
2017	71.3%	70.2%	$2,082	$2,008	4%
2018	72.7%	71.5%	$2,153	$2,141	11%
2024	80.7%	79.7%	$2,282	$2,349	40%
2025	82.0%	81.0%	$2,303	$2,373	43%
2026	83.3%	82.4%	$2,324	$2,396	44%
2027	84.6%	83.7%	$2,344	$2,419	46%
2028	85.9%	85.1%	$2,364	$2,442	49%

Total contributions from 2015 to 2039 are $1.7 billion more under the reduced schedule. From projections based on the June 30, 2013 valuation.

GRS

Primary Assumptions & Methods

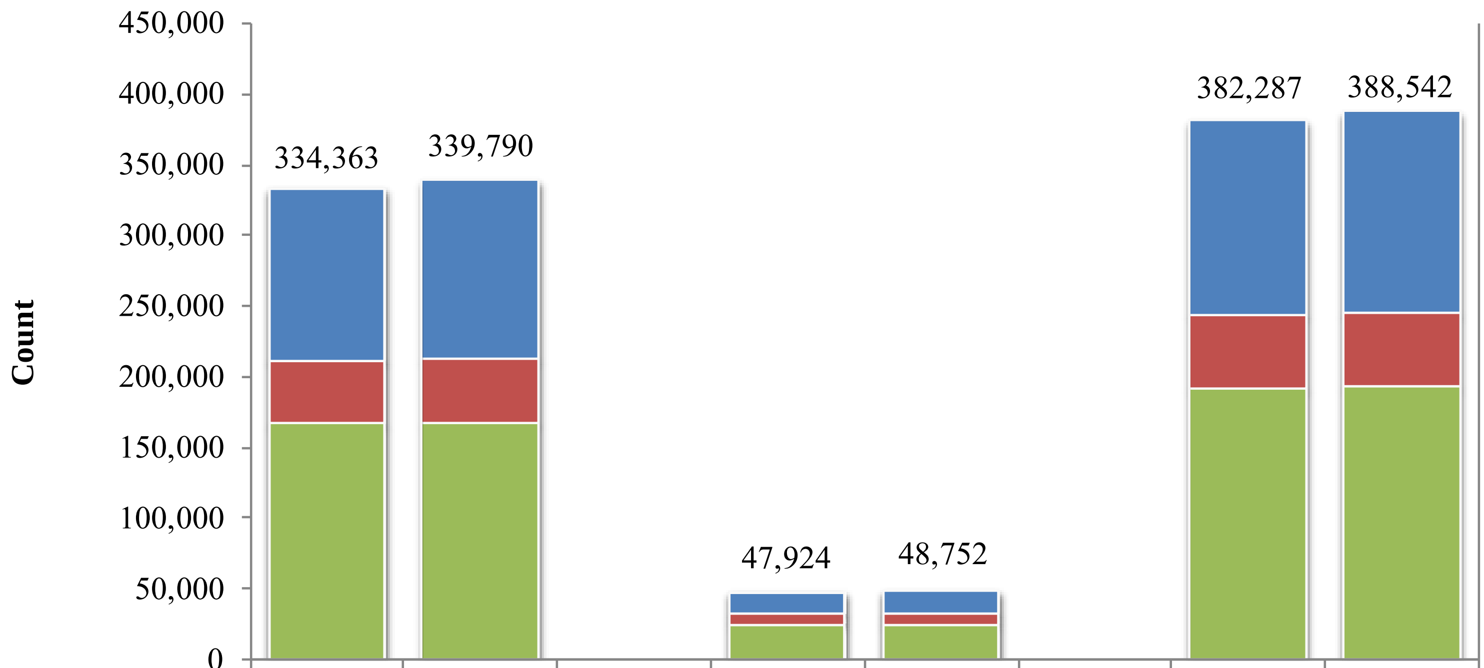
- Demographic actuarial assumptions based on the 2006-2010 experience study (first used in 2012 Valuation)
- June 30, 2014 Valuation Assumptions
  - 7.65% investment return; 3.40% payroll growth; 2.90% CPI
    - Assumptions decreasing by 0.05% per year
    - Ultimate assumptions reached in 2016 valuation (7.55%, 3.30%, 2.80%)
  - 2.65% COLA for service where COLA is capped at 3%
  - 2.88% COLA for service where COLA is capped at 5%
  - 2.90% COLA for service where COLA is not capped
  - 1.68% COLA for service earned after July 1, 2011 where COLA is capped at 2.5% in years when the System earns at least the investment assumption (7.70% for FY 2014 and 7.65% for FY 2015) or capped at 1% in years when the System earns less than the investment assumption

GRS

Primary Methods

- The valuation results are developed using:
  - Entry Age Normal Actuarial Cost Method
  - 5-year asset smoothing
  - 20% market value collar on assets
  - Corridor Funding Method for TCS and ECS (phasing out through 2022 valuation)
  - Amortization policy (entire unfunded liability amortized by FY 2039)
    - ECS Municipal still uses separate amortization bases

State and Municipal Demographic Data

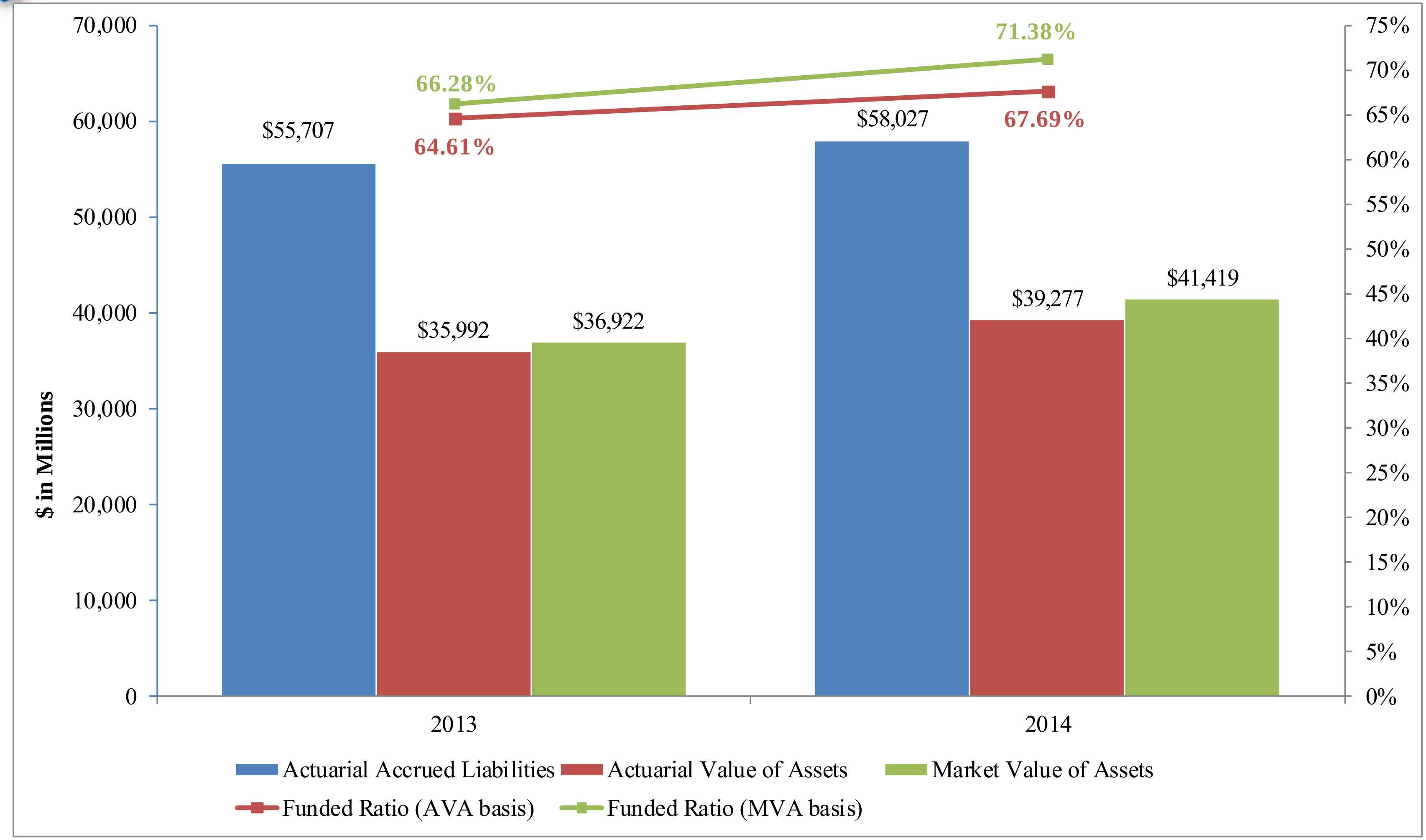


	2013 State	2014 State		2013 Muni	2014 Muni		2013 Total MSRPS	2014 Total MSRPS
Retired	122,240	126,558		15,685	16,329		137,925	142,887
Vested Former	44,899	45,416		6,653	6,717		51,552	52,133
Active	167,224	167,816		25,586	25,706		192,810	193,522
Total	334,363	339,790		47,924	48,752		382,287	388,542

Demographic Data

	2014			2013	
Number Counts	**State**	**PGU**	**Total**	**Total**	**% Chg**
Active Members	167,816	25,706	193,522	192,810	0.4%
Vested Former Members	45,416	6,717	52,133	51,552	1.1%
Retired Members	126,558	16,329	142,887	137,925	3.6%
Total Members	339,790	48,752	388,542	382,287	1.6%
Total Valuation Payroll ($ in Millions)	$9,709.0	$1,094.7	$10,803.6	$10,477.5	3.1%
Active Member Averages					
Age	46.0	48.8	46.3	46.4	-0.1%
Service	12.8	11.7	12.6	12.7	-0.7%
Pay	$ 57,855	$ 42,584	$ 55,826	$ 54,341	2.7%
Total Retiree Benefits ($ in Millions)	$2,931.5	$ 216.1	$ 3,147.7	$ 2,988.6	5.3%
Average Retiree Benefit	$ 23,163	$ 13,237	$ 22,029	$ 21,668	1.7%

Valuation Results – Combined State Systems *($ in Millions)*



21

GRS

Year to Year Comparison of Results

(STATE ONLY except Total Funded Ratios, $ in Millions)

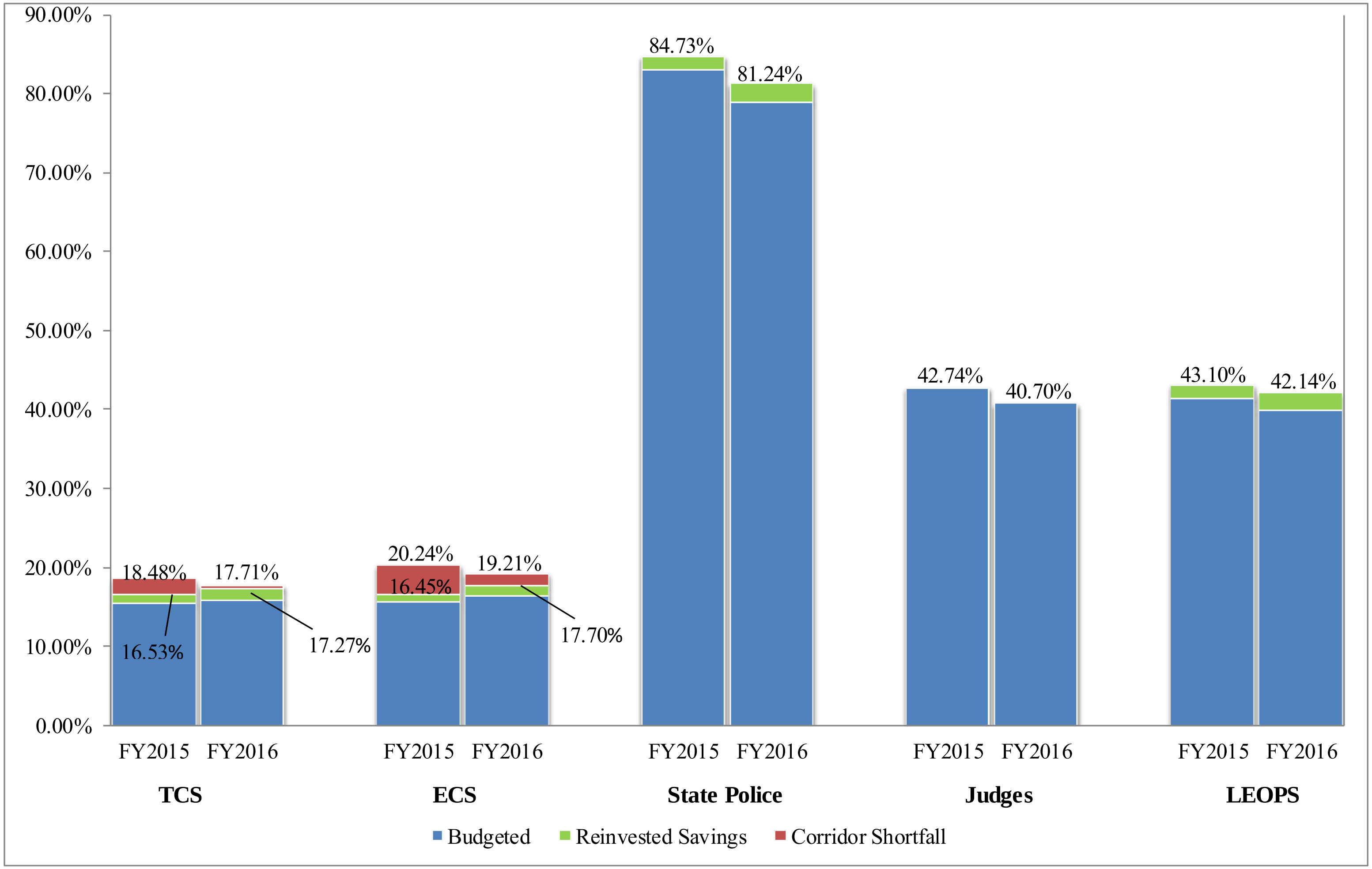
	Teachers' Combined System *	Employees' Combined System *	State Police	Judges	LEOPS	Total
FY 2016 Contribution Rate	15.71%	16.38%	78.91%	40.70%	39.77%	16.83%
FY 2016 Contr. Rate (w. Reinv. Savings)	17.27%	17.70%	81.24%	40.70%	42.14%	18.32%
FY 2015 Contribution Rate	15.47%	15.53%	83.06%	42.74%	41.37%	16.41%
FY 2015 Contr. Rate (w. Reinv. Savings)	16.53%	16.45%	84.73%	42.74%	43.10%	17.44%
2014 Actuarial Value of Assets	$ 26,068	$ 11,040	$ 1,242	$ 389	$ 539	$ 39,277
2014 Unfunded Actuarial Liability	$ 10,815	$ 6,783	$ 725	$ 70	$ 357	$ 18,750
2013 Unfunded Actuarial Liability	$ 11,685	$ 6,866	$ 718	$ 84	$ 362	$ 19,716
Funded Ratios						
2014 (Total Plan includes Municipal)	70.7%	61.9%	63.1%	84.7%	60.2%	**68.7%**
2013 (Total Plan includes Municipal)	67.1%	59.7%	61.8%	80.9%	56.9%	**65.5%**

* *Includes effect of corridor.*

Municipal Actuarial Value of Assets of $3,720 Million and Municipal Unfunded Actuarial Liability of $863 Million are also included in the development of the Total Funded Ratio of 68.7%. State only 2014 Funded Ratio is 67.7%. FY 2015 contributions reflect the reduced reinvested savings schedule per new legislation. Total Funded Ratio in 2014 would have been approximately 69% if reinvested savings was not reduced.

GRS

Actuarially Determined Contribution Rates



FY 2015 contributions reflect the reduced reinvested savings schedule per new legislation.

23

GRS

Reconciliation of Employer Contribution Rates

(STATE ONLY)

	Teachers' Combined System	Employees' Combined System	State Police	Judges	LEOPS	Total
Actuarially Determined Calculations						
FY2015 Contribution Rate	17.42%	19.32%	83.06%	42.74%	41.37%	18.91%
Change due to Investment Return	-0.85%	-0.73%	-2.79%	-1.63%	-1.01%	-0.83%
Change due to Demographic Experience	-0.45%	0.00%	-0.73%	-0.52%	-0.04%	-0.30%
Change due to Reduced Reinvested Savings	0.14%	0.12%	0.21%	0.00%	0.22%	0.14%
Change due to Corridor	0.38%	0.47%	0.00%	0.00%	0.00%	0.40%
Change due to Other	-0.33%	-1.12%	-4.23%	0.10%	-2.40%	-0.59%
Change due to Method Changes	-0.23%	-0.22%	0.00%	0.00%	0.00%	-0.22%
Change due to Assumption Changes	0.06%	0.05%	3.38%	0.01%	1.64%	0.11%
FY2016 Contribution Rate	**16.15%**	**17.89%**	**78.91%**	**40.70%**	**39.77%**	**17.61%**
Application of Corridor Method (Before Reinvested Savings)						
FY2015 Corridor Contribution Rate	15.47%	15.53%				16.41%
36% of Difference between FY2016 Actuarial Rate and FY2015 Corridor Rate	0.24%	0.85%				
FY2016 Budgeted Contribution Rate	15.71%	16.38%	78.91%	40.70%	39.77%	16.83%
Reinvested Savings Rate	1.56%	1.32%	2.33%	0.00%	2.37%	1.49%
Final FY2016 Total Budgeted Contr. Rate	**17.27%**	**17.70%**	**81.24%**	**40.70%**	**42.14%**	**18.32%**
Effect of Corridor	-0.44%	-1.51%				-0.78%

Other includes impact on contribution rate of change in total base payroll.

Sources of change due to demographic experience described on slides 25 and 26.

Calculation of Contribution Rate Attributable to Reinvestment Amounts

(STATE ONLY, $ in Millions)

	Teachers' Combined System	Employees' Combined System	State Police	Judges	LEOPS	Total
% of Total Pension Reform Savings#	67.7%	29.4%	1.4%	0.0%	1.5%	100.0%
Reinvested Savings	$ 101.5	$ 44.0	$ 2.1	$ -	$ 2.3	$ 150.0
FY 2016 Contributions						
Illustrated Dollar Contributions	$ 1,025.1	$ 547.3	$ 71.1	$ 18.1	$ 38.9	$ 1,700.4
Reinvested Savings	$ 101.5	$ 44.0	$ 2.1	$ -	$ 2.3	$ 150.0
Total Illustrated Contributions	$ 1,126.6	$ 591.3	$ 73.2	$ 18.1	$ 41.2	$ 1,850.4
FY 2015 Illustrated Contributions	$ 1,057.6	$ 523.8	$ 71.2	$ 18.0	$ 38.4	$ 1,709.0
FY 2016 Contribution Rates						
Employer Contribution Rate	15.71%	16.38%	78.91%	40.70%	39.77%	16.83%
Reinvested Savings Rate^	1.56%	1.32%	2.33%	0.00%	2.37%	1.49%
Total Contribution Rate	17.27%	17.70%	81.24%	40.70%	42.14%	18.32%

 # Based on Calculations from June 30, 2011 Valuation.

^ Rate calculated based on allocated reinvested dollars and FY 2016 projected payroll. It is our understanding that the Retirement Agency will monitor contributions to ensure that the System receives the proper amount of reinvested savings during Fiscal Year 2016.

FY 2015 contributions reflect the reduced reinvested savings schedule per new legislation.

GRS

Budgeted Employer Contribution Rates Year to Year Comparison ($ Millions)

(STATE ONLY, $ in Millions)

26

	Teachers' Combined System		Employees' Combined System		State Police		Judges		LEOPS		Total
FY2016 Contribution Rate		17.27%		17.70%		81.24%		40.70%		42.14%	18.32%
FY2015 Contribution Rate		16.53%		16.45%		84.73%		42.74%		43.10%	17.44%
Year over Year Change		0.74%		1.25%		-3.49%		-2.04%		-0.96%	0.88%
FY2016 Illustrative Contribution^	$	1,025.1	$	547.3	$	71.1	$	18.1	$	38.9	$ 1,700.4
FY2016 Reinvested Savings	$	101.5	$	44.0	$	2.1	$	-	$	2.3	$ 150.0
FY2016 Total Illustrative Contr.	$	1,126.6	$	591.3	$	73.2	$	18.1	$	41.2	$ 1,850.4
FY2015 Illustrative Contribution#	$	989.9	$	494.5	$	69.8	$	18.0	$	36.9	$ 1,609.0
FY2015 Reinvested Savings	$	67.7	$	29.4	$	1.4	$	-	$	1.5	$ 100.0
FY2015 Total Illustrative Contr.	$	1,057.6	$	523.9	$	71.2	$	18.0	$	38.4	$ 1,709.0
Year over Year Change	$	69.1	$	67.5	$	2.0	$	0.1	$	2.8	$ 141.4

^ FY2016 Contribution based on payroll as of June 30, 2014, projected to FY2015 for TCS and FY2016 for all other systems. FY2016 Contribution for TCS is $1,165 Million based on payroll projected to FY2016.
 # FY2015 Contribution based on payroll as of June 30, 2013, projected to FY2014 for TCS and FY2015 for all other systems. FY2015 Contribution for TCS is $1,227 Million based on payroll projected to FY2015. FY 2015 contributions reflect the reduced reinvested savings schedule per new legislation.

GRS

Recommended Fiscal Year 2016 Budgeted Contribution Rates

(STATE ONLY)

System	Budgeted Rate
Teachers' Combined System	15.71%
Employees' Combined System	16.38%
State Police	78.91%
Judges	40.70%
LEOPS	39.77%

Reinvested savings should be added to the rates above.

GRS

Allocation of Contribution to Local Employers

- Allocation of Contributions to Local Employers
  - ►Beginning in fiscal year 2013, local employers contribute a portion of the statutory normal cost contribution for the Teachers Combined System
  - ►Normal cost contribution amounts for local employers for fiscal years 2013 through 2016 are defined in statute
  - ►Beginning in fiscal year 2017, local employers will contribute the full normal cost contribution for their employees

GRS

Allocation of Contribution to Local Employers

Teachers Combined System

FY2016 Contribution ($ in Millions)

	% of Pay	Total	Local Employers	State
Employer Normal Cost	5.12%	$ 334.0	$ 254.8	$ 79.2
UAAL Amortization*	10.59%	691.1	-	691.1
Reinvested Savings	1.56%	101.5	-	101.5
Total	17.27%	$ 1,126.6	$ 254.8	$ 871.8

FY2015 Contribution ($ in Millions)

	% of Pay	Total	Local Employers#	State
Employer Normal Cost	5.64%	$ 360.9	$ 221.6	$ 139.3
UAAL Amortization*	9.83%	629.0	-	629.0
Reinvested Savings	1.06%	67.7	-	67.7
Total	16.53%	$ 1,057.6	$ 221.6	$ 836.0

** Includes impact of corridor funding.*

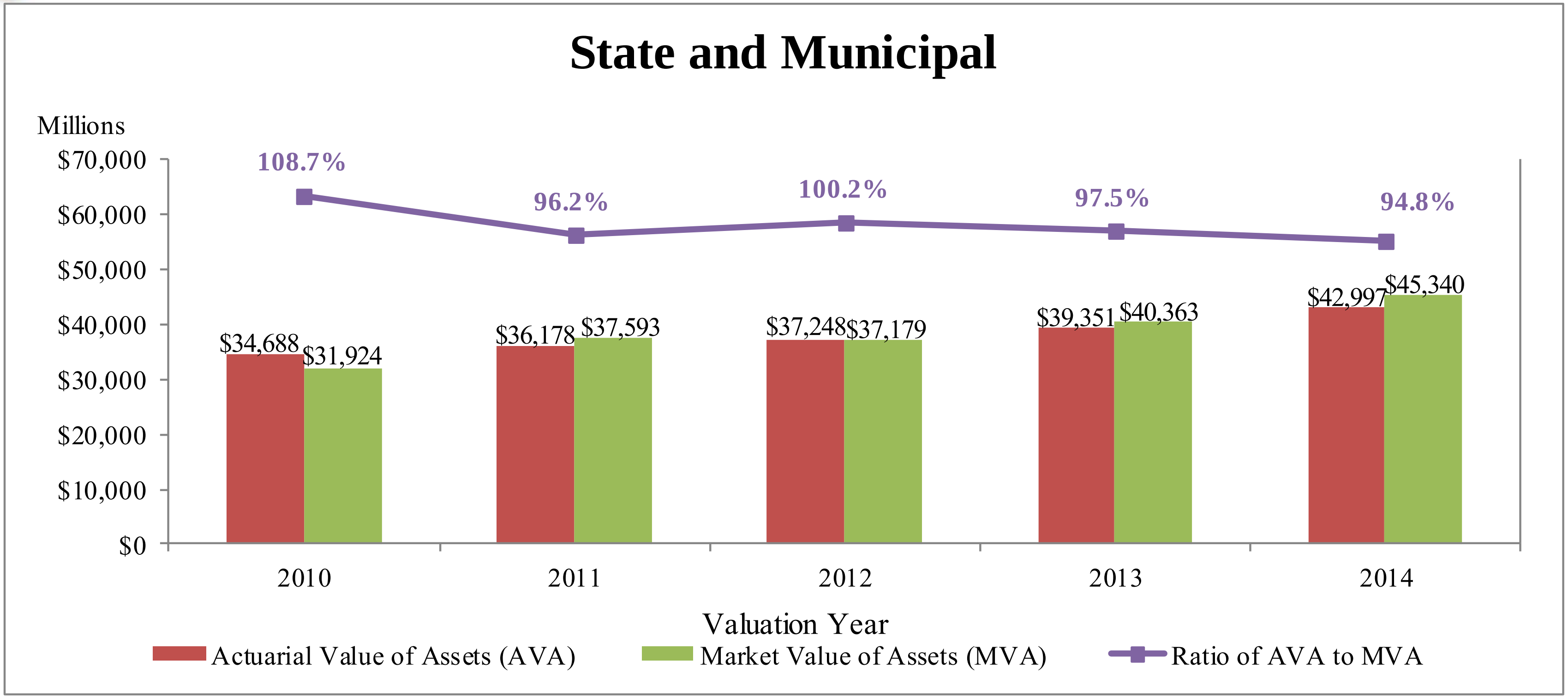
 # Amounts are taken from Senate Bill 1301.

FY 2015 contributions reflect the reduced reinvested savings schedule per new legislation.

29

GRS

Actuarial Value of Assets - ($ Millions)

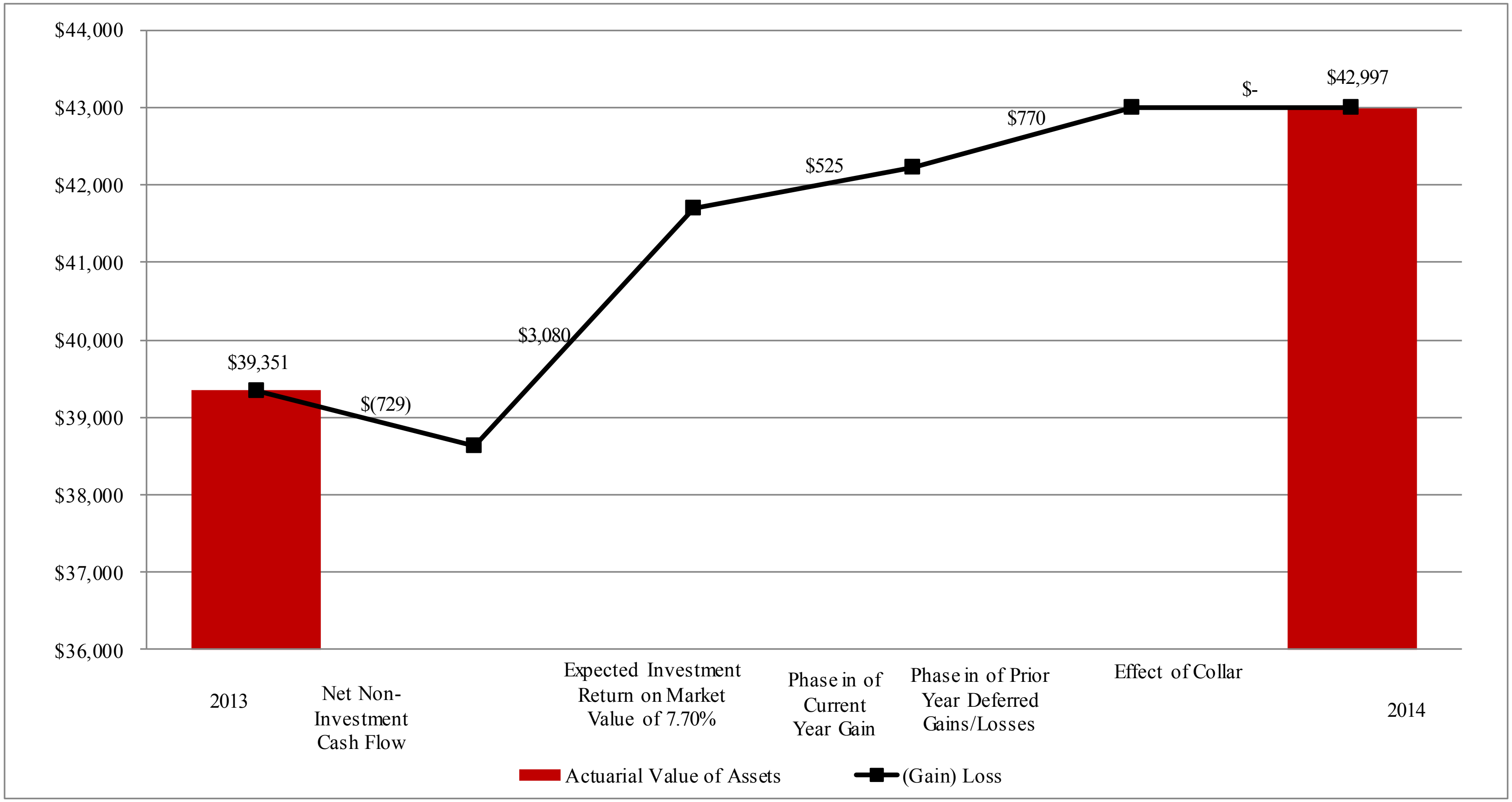


30

The actuarial valuation is not based directly upon market value, but rather uses a smoothed value of assets that phases in each year's gain or loss above/below the investment return assumption over 5 years.

GRS

Actuarial Value of Assets - ($ Millions)



31

GRS

Actuarial Value of Assets – ($ Millions) Phase In of Deferred Gains and Losses

	2014	2015	2016	2017	2018
1. Value at July 1, 2013	$ 39,351.0				
2. Net Cash Flow	(729.5)				
3. Investment Return	5,706.3				
4. Expected Return	3,080.4				
5. Gain or loss (3-4)	2,625.9				
6. Amount for full recognition	3,080.4				
7. Phase-in amounts					
7a. From this year	525.2				
7b. From one year ago	197.9	$ 525.2			
7c. From two years ago	(557.9)	197.9	$ 525.2		
7d. From three years ago	764.4	(557.9)	197.9	$ 525.2	
7e. From four years ago	365.5	764.4	(557.9)	197.9	$ 525.2
8. Total Phase-ins	1,295.1	929.6	165.1	723.1	525.2
9. Final Value: 1+2+6+8	42,997.0				

There is a net gain of about $2.3 Billion to be recognized in the future ($2.1 Billion State and $200 Million Municipal)

GRS

FY2014 Experience

The following items decreased or offset increases to the contribution rates:

1. Favorable investment return (estimated 14.3% on a market value basis, 11.2% on an actuarial value basis)
2. Method Changes
3. Favorable demographic and other experience
   1. Lower salary increases than expected for continuing members for some Systems
   2. Lower COLA than expected (1.465% for most retirees)
   3. Increase in total active membership and base payroll
      1. Higher payroll than expected leads to lower % of pay contribution for unfunded liability. Total payroll was expected to increase by 3.45% over last year and actual payroll changed as follows:
         1. Teachers increased by 2.0%
         2. Employees Combined increased by 5.0%
         3. State Police increased by 7.3%
         4. Judges increased by 5.8%
         5. LEOPS increased by 9.8%
      2. Lower benefits for members participating in reformed Systems (hired on or after July 1, 2011)

FY2014 Experience

The following items increased the contribution rates:

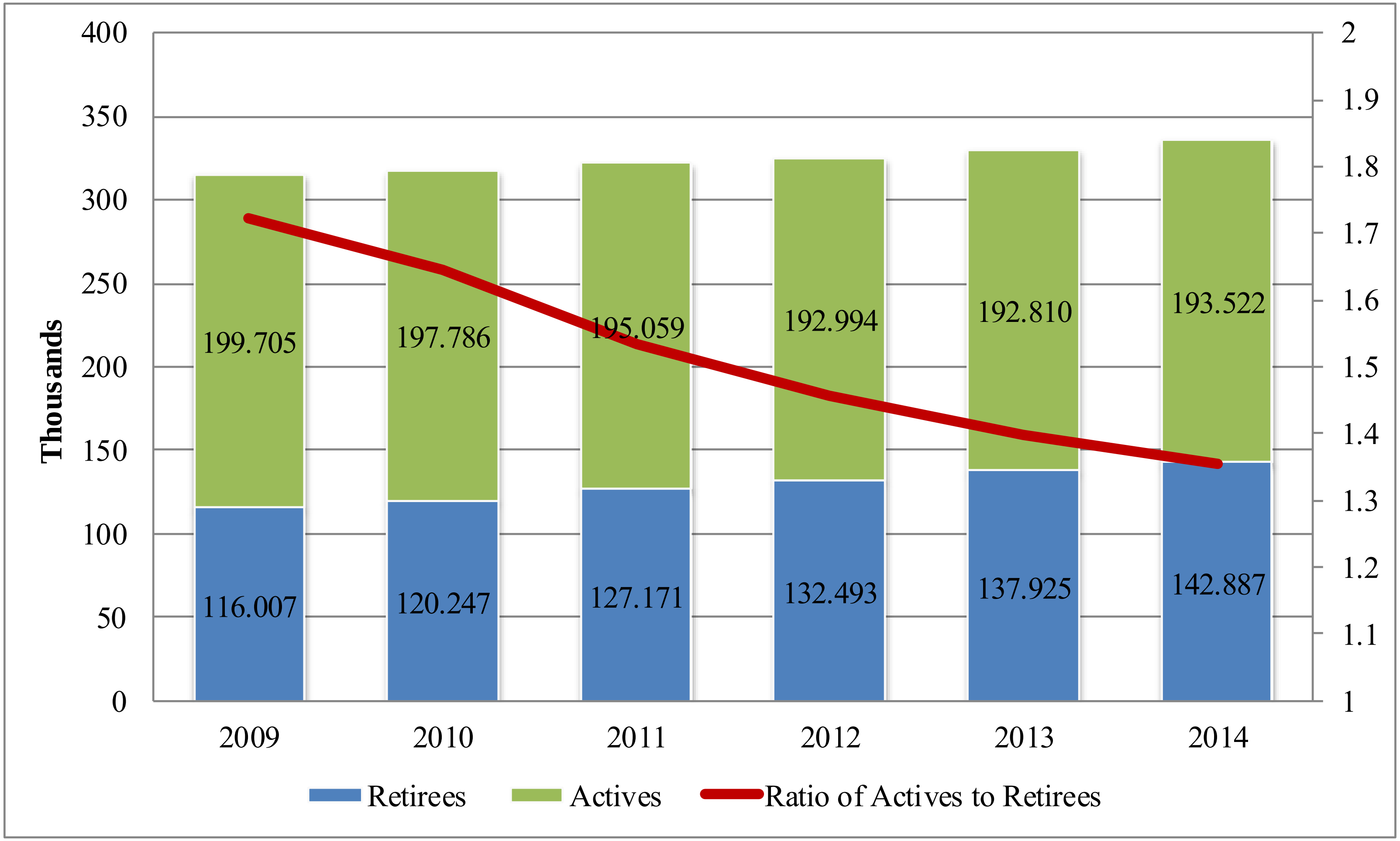
1. Corridor funding method for Teachers and Employees
2. Lower than expected reinvested savings due to new legislation ($200M less than expected)
3. Phase down of economic assumptions
    1. Investment return assumption decreased from 7.70% to 7.65%
    2. Payroll growth assumption decreased from 3.45% to 3.40%
    3. CPI assumption decreased from 2.95% to 2.90%
        1. Resulted in decrease in COLA assumptions
4. Strengthened disabled mortality tables for State Police and LEOPS

GRS

Membership History

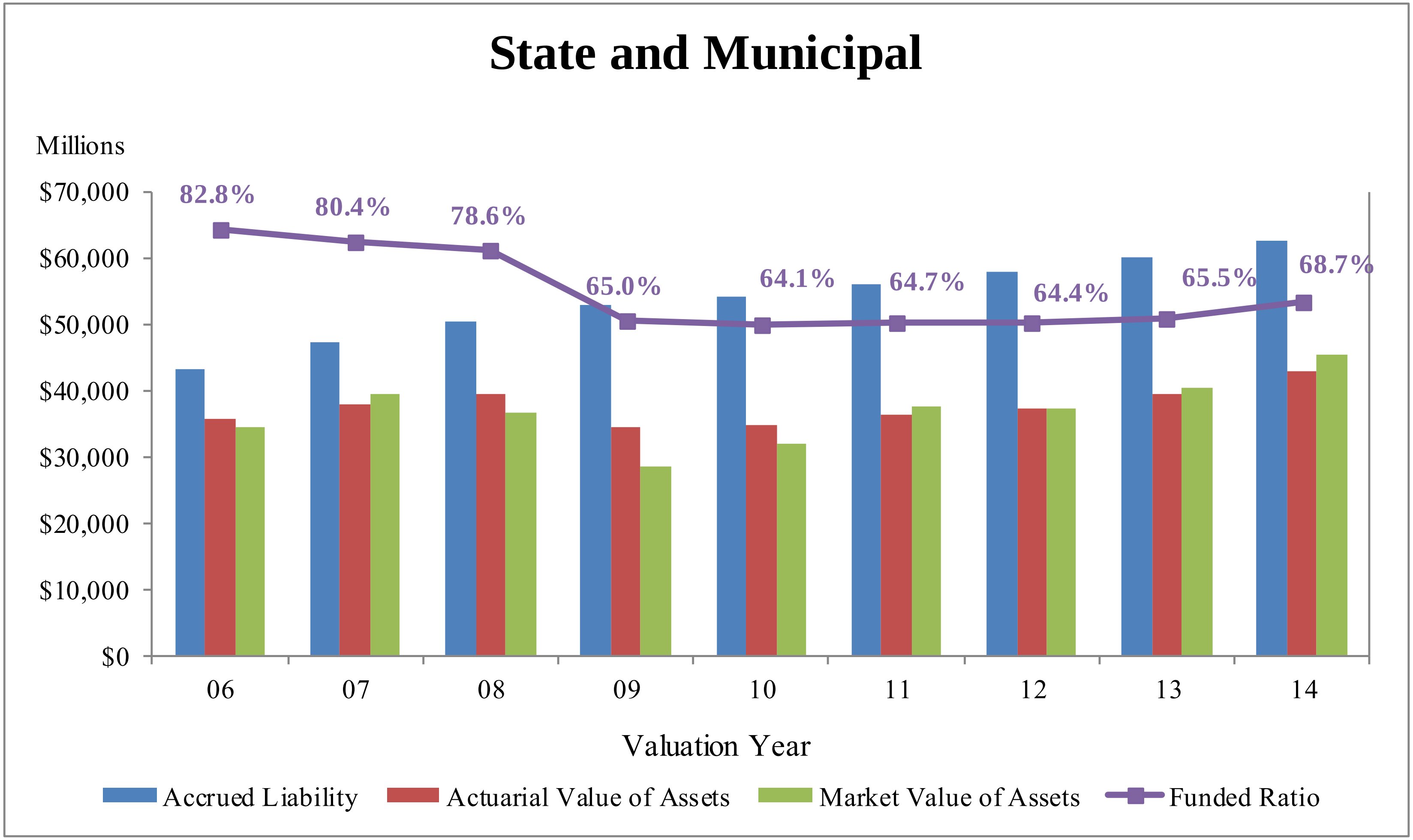
Combined State and Municipal

35



GRS

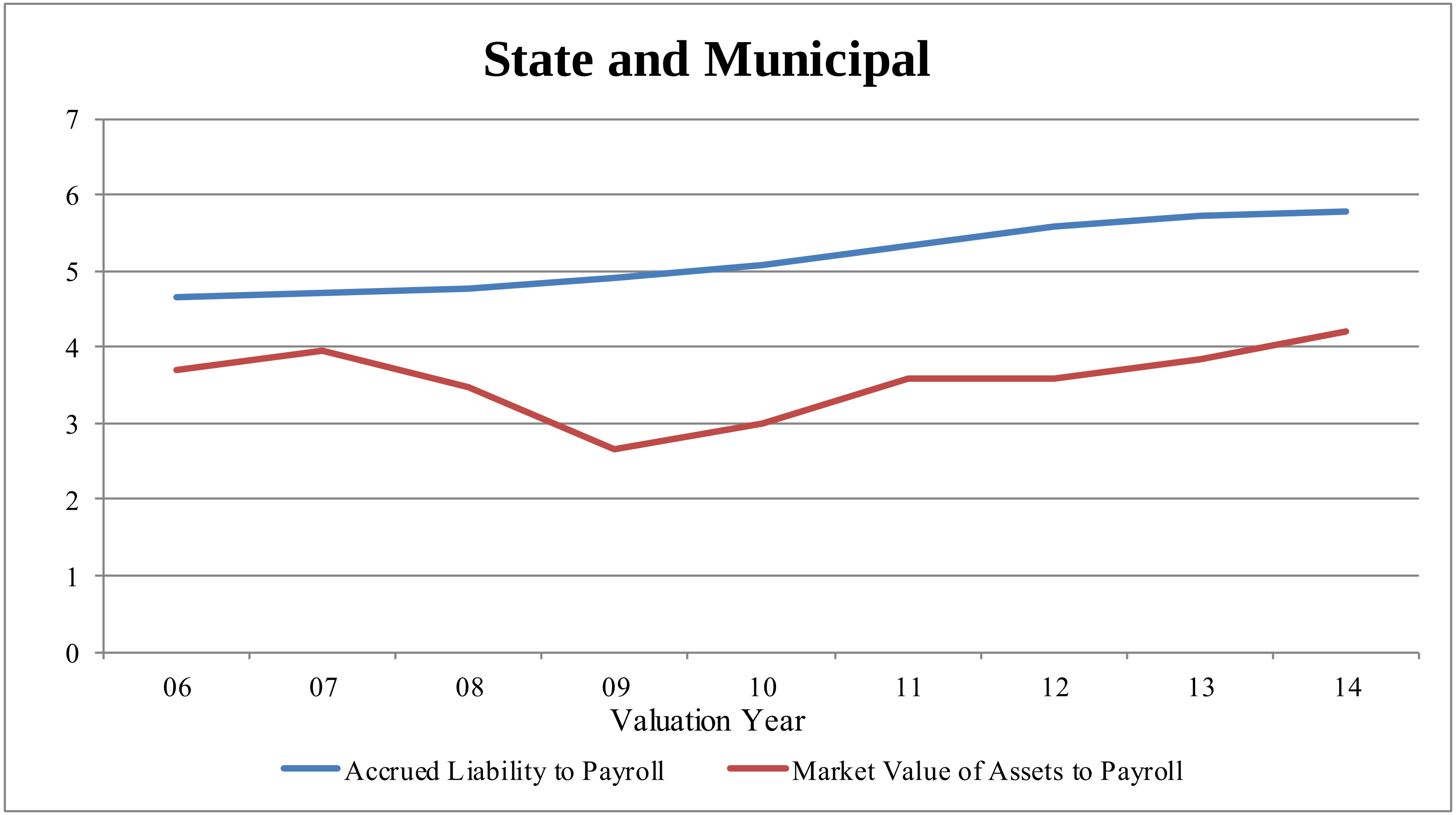
Historical Trends – Change in Funded Status, 2006 to 2014



36

GRS

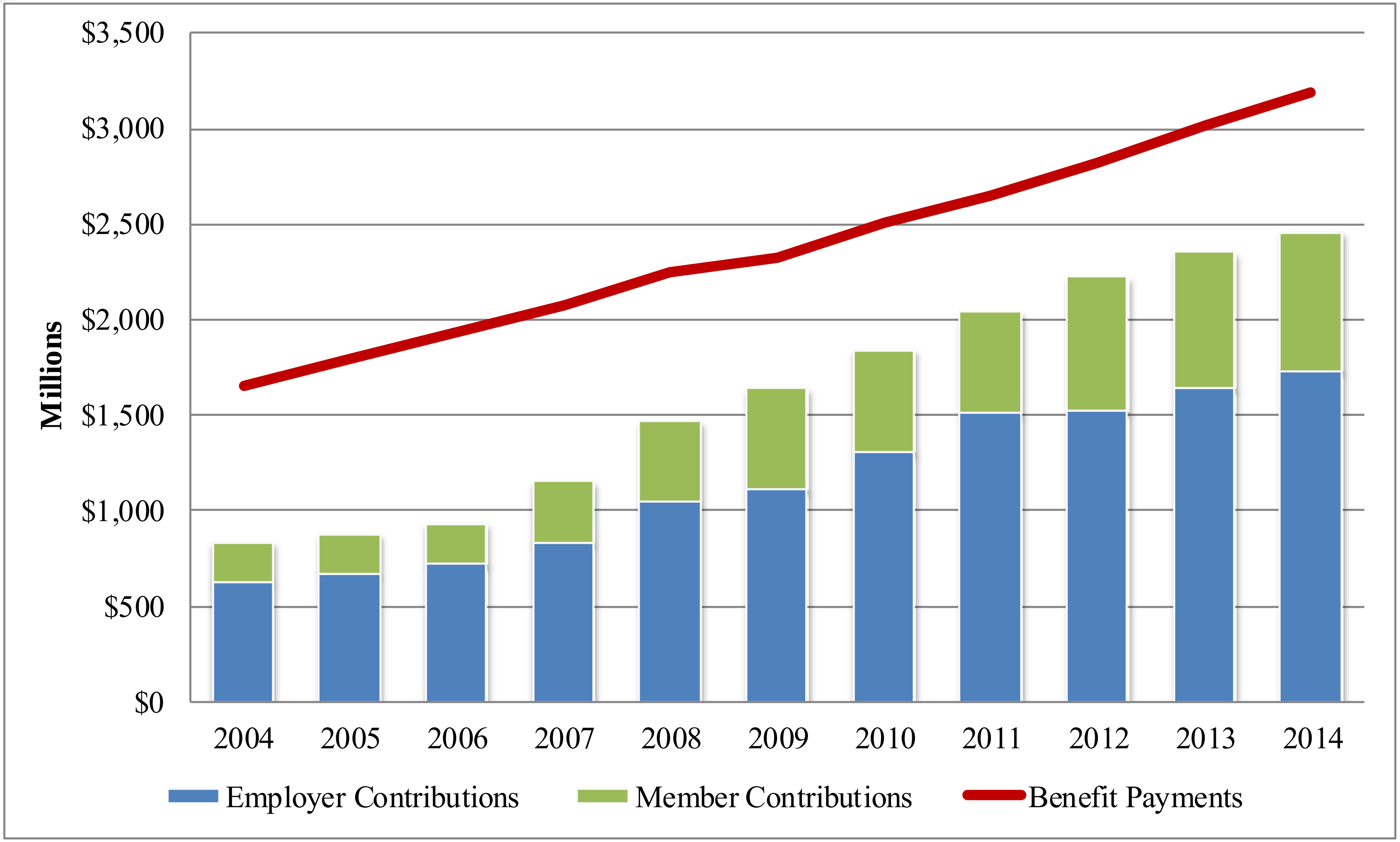
Ratio of Accrued Liability and Market Value of Assets to Payroll



37

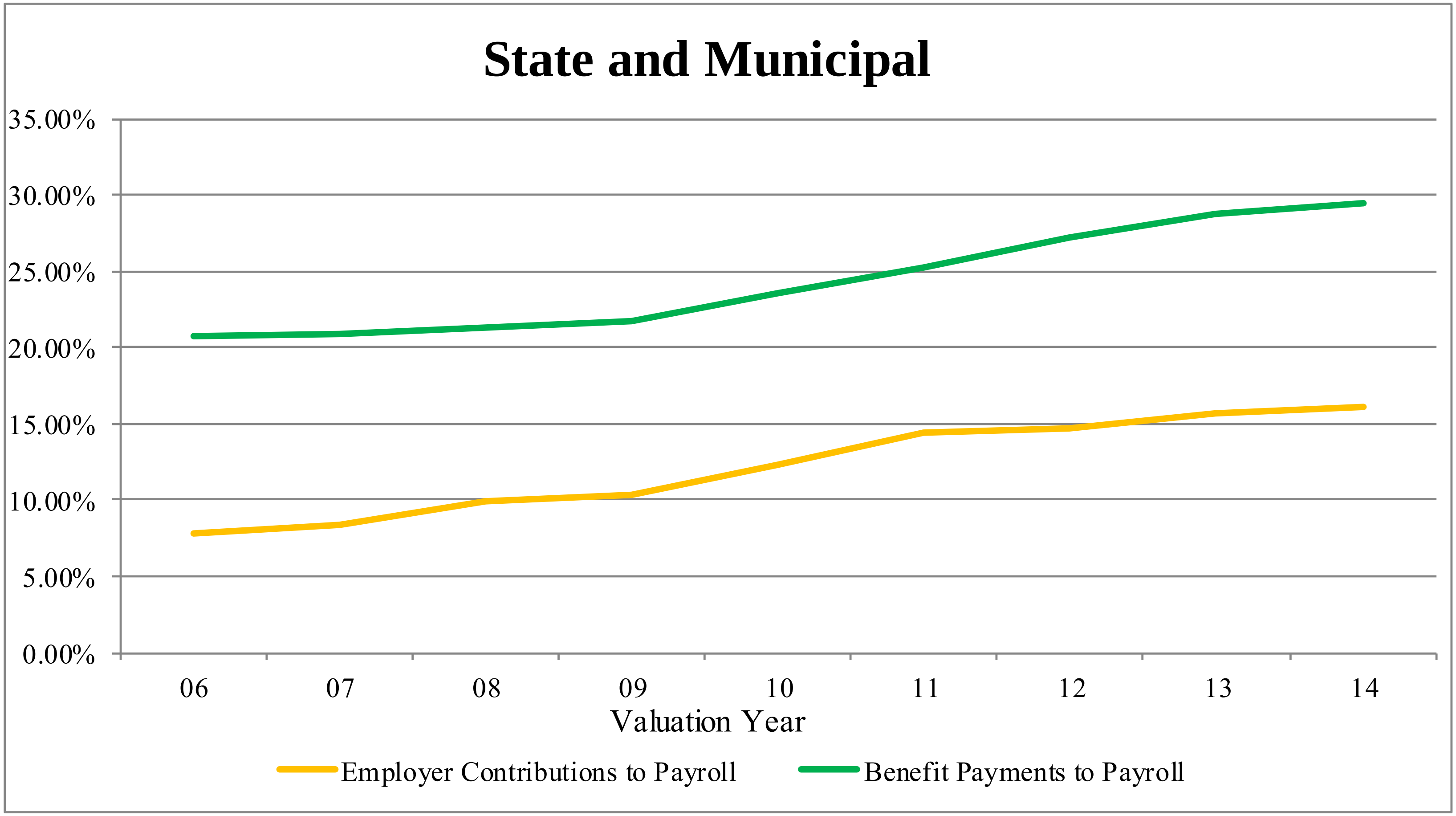
GRS

Historical Trends – Non-Investment Cash Flow (State and Municipal)



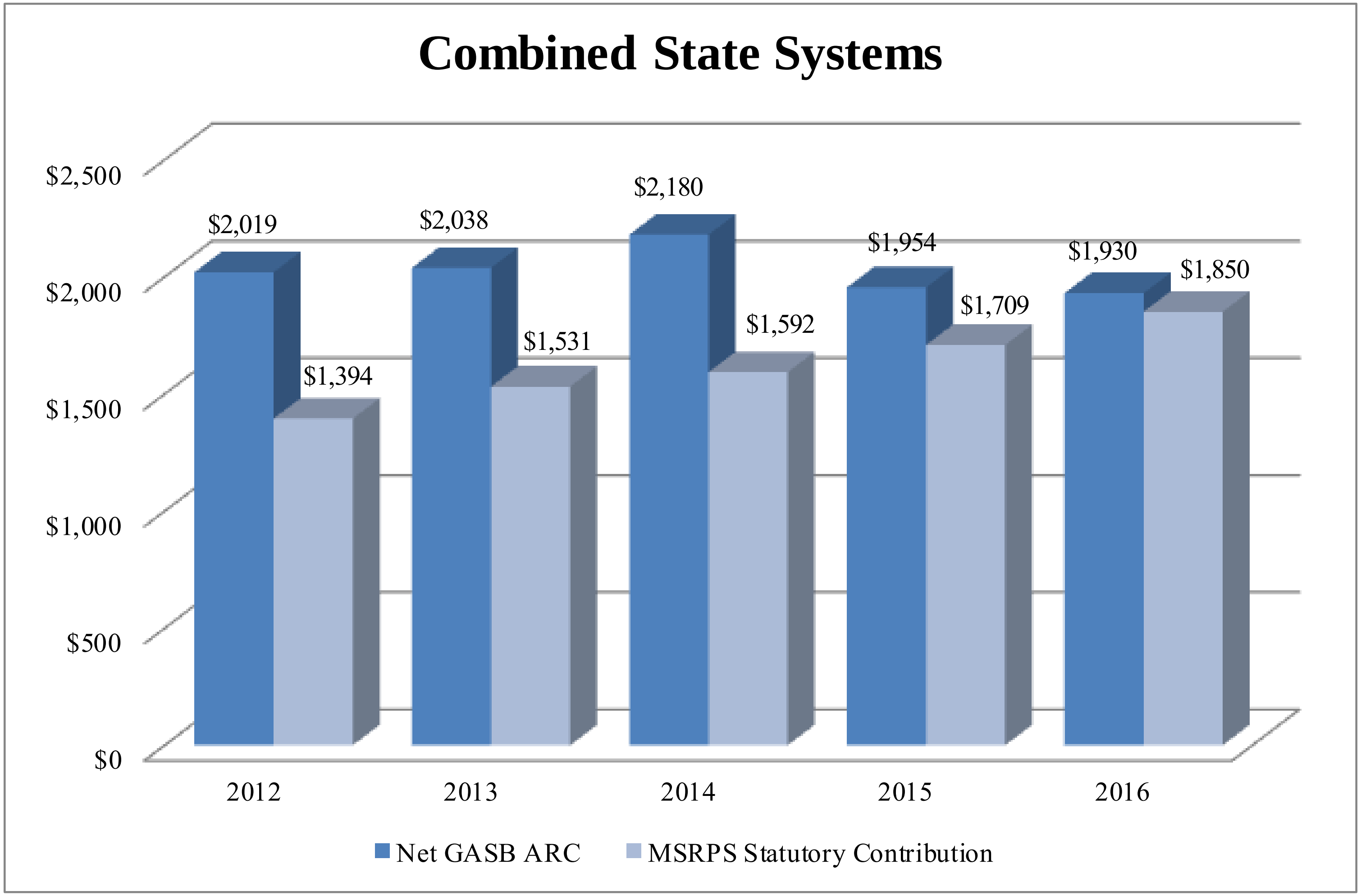
GRS

Percent of Employer Contributions and Benefit Payments to Payroll



GRS

Statutory Contributions vs. Annual Required Contributions *($ in Millions)*



2014 and 2015 contributions reflect the reduced reinvested savings schedule per new legislation.
Net GASB ARC based on actuarially determined contributions (without corridor) for 2012 - 2016.

GRS

GASB No. 67 - Plan Net Position as Percent of Total Pension Liability*

System	1% Decrease to SDR 6.65%	Single Discount Rate (SDR) Assumption 7.65%	1% Increase to SDR 8.65%
Teachers	65.36%	73.65%	82.40%
Employees (State)	58.43%	65.35%	72.60%
State Police	58.56%	66.11%	73.89%
Judges	80.55%	88.84%	97.42%
LEOPS (State)	55.88%	63.12%	70.67%
Employees (Muni)	77.63%	86.90%	96.66%
LEOPS (Muni)	53.26%	61.19%	69.62%
CORS	86.93%	99.27%	112.43%
Total MSRPS	63.94%	71.87%	80.21%

* *The figures on this page were developed using a measurement date of June 30, 2013 for Total Pension Liability (TPL) rolled forward to June 30, 2014 (reflecting changes in assumptions) and a measurement date of June 30, 2014 for the Fiduciary Net Position. This practice will facilitate completion of MSRPS' reporting requirements in the future. Because the TPL was rolled forward, figures shown above will not match comparable figures shown elsewhere.*

Concluding Comments

- Employer contributions changed in approximately the manner in which was projected from the June 30, 2013 valuation results. Overall, the experience was more favorable than anticipated for the fiscal year ending June 30, 2013 which led to slightly lower FY 2016 illustrative contributions for the State (and local employers) than was projected.
- Reduction in reinvested savings will slow growth of funded ratio
  - System still projected to attain an 85% funded ratio in 2028
- State Systems on a path to reach a 100% funded ratio by 2039

GRS

Conclusion

- What Is Needed to Sustain MSRPS?
  - ►Continued reasonable forecasts of resources and obligations
  - ►Continued sound investment program
  - ►Continued long-term approach to changes
  - ►Continued adherence to funding policy

43

GRS

GASB Changes

Gabriel Roeder Smith & Company
Consultants & Actuaries
www.gabrielroeder.com

Copyright © 2014 GRS – All rights reserved.

GASB Changes - Overview

- New GASB Accounting Standards No. 67 and No. 68 will create accounting results separate from funding results
  - Funding calculations **<u>are not impacted</u>**
  - GASB created a new Net Pension Liability (NPL) and Pension Expense
  - Statement No. 67 replaces Statement No. 25
  - Statement No. 68 replaces Statement No. 27

GRS

GASB Changes - Overview

- Requires recognition of a version of unfunded liability on each employer's balance sheet
  - Formerly only in footnotes
- Changes calculation of annual cost
  - No longer equal to required contribution (ARC)
- Meant to improve transparency and comparability – market assets, single funding method, rigid amortization rules

GASB Changes - Overview

- Special Rules
  - ►All pension plans (single, cost sharing, and agent employers) have to disclose their assets in great detail as well as plan description, Board composition, investment policies, etc. Identify participating GAAP entities
  - ►Single and cost-sharing plans have to disclose TPL, NPL, etc, but agent plans do not

GASB Changes - Overview

- Key differences for employer accounting
  - New GASB rules do not allow smoothing of assets
  - New GASB rules may require lower (or blended) discount rate to value liabilities
- Key takeaways
  - New GASB rules do NOT change the funding contribution rate or methods
  - New GASB rules do provide a second set of actuarial numbers

Disclosures

- This presentation is intended to be used in conjunction with the June 30, 2014 actuarial valuation report. This presentation should not be relied on for any purpose other than the purpose described in the valuation report.

- Circular 230 Notice: Pursuant to regulations issued by the IRS, to the extent this presentation concerns tax matters, it is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties under the Internal Revenue Code or (ii) marketing or recommending to another party any tax-related matter addressed within. Each taxpayer should seek advice based on the individual's circumstances from an independent tax advisor.

- This presentation shall not be construed to provide tax advice, legal advice or investment advice.

- The actuaries submitting this presentation (Brian Murphy, Brad Armstrong, and Amy Williams) are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

- The purposes of the actuarial valuation are to measure the financial position of MSRPS, assist the Board in establishing employer contribution rates necessary to fund the benefits provided by MSRPS, and provide actuarial reporting and disclosure information for financial reporting.

GRS

Disclosures

- Future actuarial measurements may differ significantly from the current and projected measurements presented in this presentation due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law.
- This is one of multiple documents comprising the actuarial reports for the combined systems and the municipal corporations. Additional information regarding actuarial assumptions and methods, and important additional disclosures are provided in the Actuarial Valuations as of June 30, 2014.
- If you need additional information to make an informed decision about the contents of this presentation, or if anything appears to be missing or incomplete, please contact us before relying on this presentation.

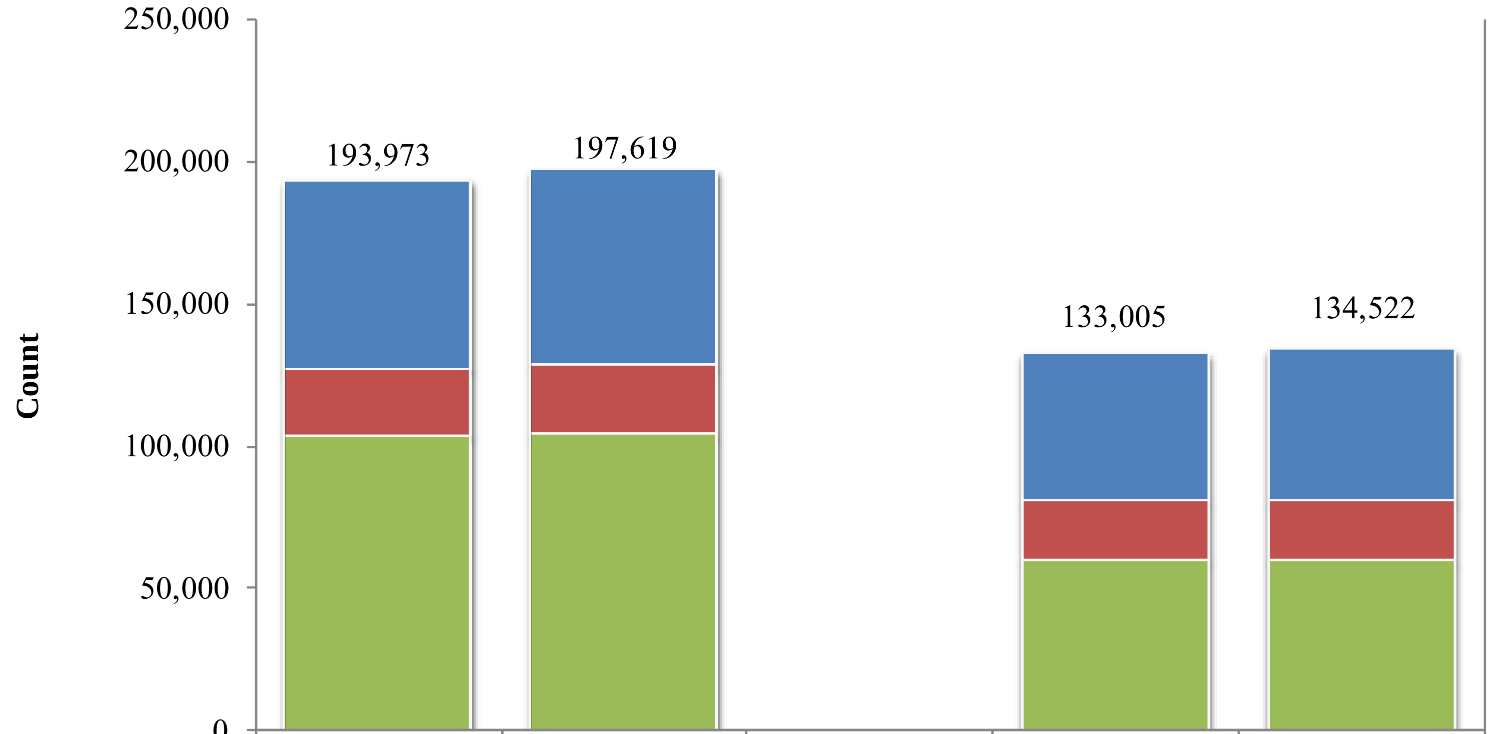
GRS

Appendix

Copyright © 2014 GRS – All rights reserved.

State Demographic Data by System

52

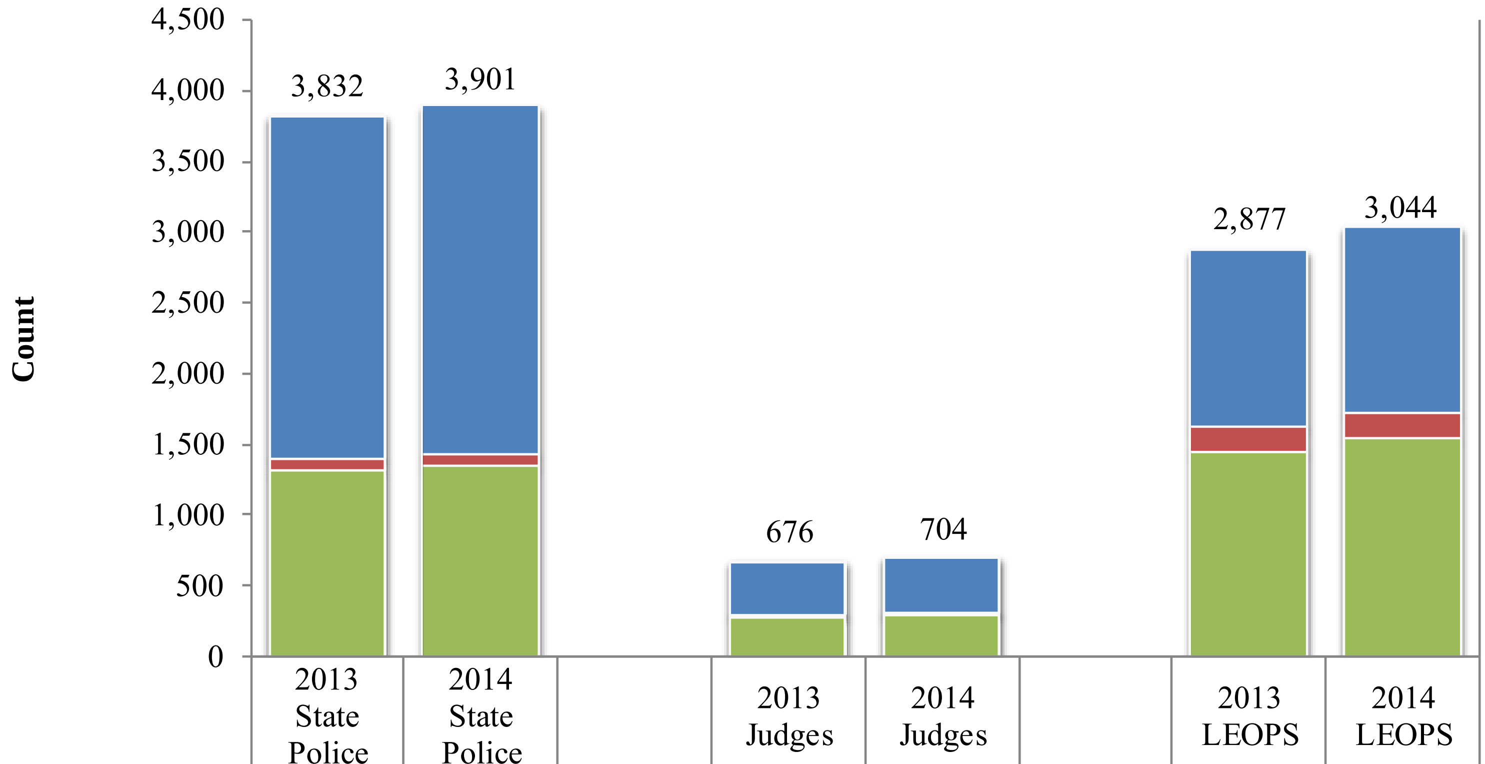


	2013 TCS	2014 TCS		2013 ECS	2014 ECS
Retired	66,390	68,929		51,798	53,457
Vested Former	23,555	24,220		21,078	20,914
Active	104,028	104,470		60,129	60,151
Total	193,973	197,619		133,005	134,522

GRS

State Demographic Data by System

53



	2013 State Police	2014 State Police		2013 Judges	2014 Judges		2013 LEOPS	2014 LEOPS
Retired	2,428	2,468		378	395		1,246	1,309
Vested Former	84	82		10	8		172	192
Active	1,320	1,351		288	301		1,459	1,543
Total	3,832	3,901		676	704		2,877	3,044

GRS

State Demographic Data by System

	TCS	ECS	State Police	Judges	LEOPS	Total
Active Members						
2014 Count	104,470	60,151	1,351	301	1,543	167,816
2013 Count	104,028	60,129	1,320	288	1,459	167,224
2012 Count	103,694	60,719	1,332	294	1,473	167,512
% Change 2014/2013	0.4%	0.0%	2.3%	4.5%	5.8%	0.4%
2014 Payroll ($Mill)	$6,310.3	$3,177.7	$85.7	$42.3	$93.0	$9,709.0
2013 Payroll ($Mill)	$6,185.2	$3,026.1	$79.8	$40.0	$84.7	$9,415.8
2012 Payroll ($Mill)	$6,080.6	$3,001.2	$77.7	$40.0	$83.7	$9,283.1
% Change 2014/2013	2.0%	5.0%	7.3%	5.8%	9.8%	3.1%
2014 Average Pay	$ 60,403	$ 52,829	$ 63,405	$ 140,576	$ 60,290	$ 57,855
2013 Average Pay	$ 59,457	$ 50,326	$ 60,491	$ 138,891	$ 58,077	$ 56,307
2012 Average Pay	$ 58,640	$ 49,428	$ 58,326	$ 135,903	$ 56,803	$ 55,418
% Change 2014/2013	1.6%	5.0%	4.8%	1.2%	3.8%	2.7%

GRS

State Demographic Data by System

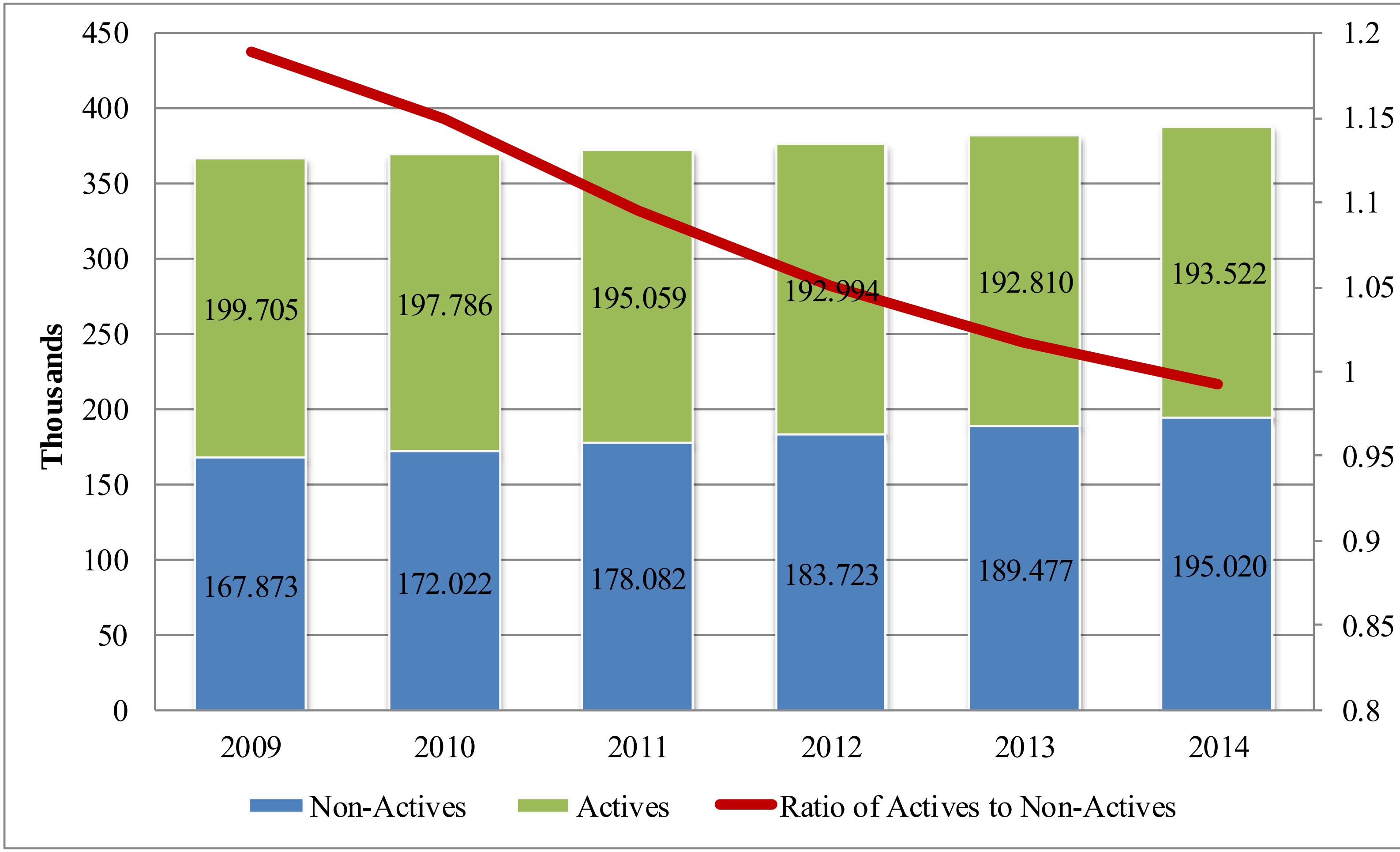
	TCS	ECS	State Police	Judges	LEOPS	Total
Retired Members						
2014 Count	68,929	53,457	2,468	395	1,309	126,558
2013 Count	66,390	51,798	2,428	378	1,246	122,240
2012 Count	63,699	49,955	2,387	365	1,161	117,567
% Change 2014/2013	3.8%	3.2%	1.6%	4.5%	5.1%	3.5%
2014 Benefits ($ Mill)	$1,850.9	$895.8	$113.1	$28.7	$43.0	$2,931.5
2013 Benefits ($ Mill)	$1,758.6	$851.2	$109.9	$26.5	$40.4	$2,786.6
2012 Benefits ($ Mill)	$1,657.5	$801.1	$106.0	$25.2	$36.9	$2,626.6
% Change 2014/2013	5.2%	5.2%	2.9%	8.3%	6.4%	5.2%
Vested Former Members						
2014 Count	24,220	20,914	82	8	192	45,416
2013 Count	23,555	21,078	84	10	172	44,899
2012 Count	23,033	21,335	85	10	162	44,625
% Change 2014/2013	2.8%	-0.8%	-2.4%	-20.0%	11.6%	1.2%

55

GRS

Membership History
Combined State and Municipal

56



PENSION ACCOUNTING CHANGES

GASB
Governmental Accounting Standards Board
& MOODY'S

57

A NEW WORLD FOR PUBLIC PENSION PLANS: *MULTIPLE REPORTS OF LIABILITIES*

- For Funding Purposes – Not to change materially from those developed under current GASB standards
- For Accounting Purposes – New GASB standards
- For Third Party Analysis Purposes – e.g., New Moody's methodology

GASB IMPLEMENTATION

- Effective for MSRPS FY 2014
  - Statement 67, Financial Reporting for Pension Plans
- Effective for State FY 2015
  - Statement 68, Accounting and Reporting for Pensions

REPORTING CHANGES

- Adds **Net Pension Liability (NPL)** – similar to the unfunded actuarial liability

- Adds a new **pension expense** calculation that replaces the current Annual Pension Cost under GASB 27

- Pension expense – The State's cost of pension benefits; calculated under new rules such as immediate recognition of benefit changes, gains/losses of assets

REPORTING CHANGES

- Creates a blended rate that must be used when a plan is projected to deplete assets
  - The plan uses the assumed rate of return up to the point the plan no longer has assets to pay benefits
  - The remaining liability must be discounted with a high quality municipal bond rate
  - For FY 2014 with new GASB standards in effect, the blended rate was not necessary for MSRPS

MSRPS CURRENT POSITION IF NEW GASB WERE IN EFFECT TODAY

$ in thousands

		GASB No. 27	GASB No. 67	
	Unfunded Actuarial Accrued Liability	Net Pension Obligation	Net Pension Liability	Crossover Date
Teachers'	$ 10,815,010	$ 1,742,821	$ 9,833,882	NA
Employees'	6,783,057	1,719,086	6,175,028	NA
State Police	724,814	68,534	669,790	NA
LEOPS	70,375	-	51,348	NA
Judges	356,782	-	330,520	NA
Combined State	$ 18,750,038	$ 3,530,441	$ 17,060,568	

63

GASB – DISCLOSURE APPEARANCE

- GASB requirements significantly increase the <u>*appearance*</u> of the liability for accounting purposes only, but ***will not change*** the actual liability amount as it is used to determine State contributions

IMPACT TO STATE

- For fiscal years 2015 and after, the entire Net Pension Liability ($17.0 billion for FY 2014) will appear on the State's financial statements, whereas only the Net Pension Obligation ($3.5 billion in FY 2014) has to be reported for fiscal years 2014 and before

GASB – ACTUARIAL CONSIDERATIONS

- Actuary will now need to create two valuation reports annually: one for funding and one for financial reporting
- Participating employers will require information and guidance from MSRPS in order to prepare their financial statements
- GASB requires plan employers to report a proportionate share of the plan's NPL

MOODY'S – ANALYSIS OF PENSION LIABILITIES

All public entities issuing debt are now analyzed using the same standards:

- Actuarial liabilities adjusted using the Citibank's Pension Liability Index rate (4.33% as of 6/30/2014)
- Asset smoothing replaced with market value
- Resulting adjusted net pension liability amortized over 20 years
- Participating employers will be allocated plan liabilities based on their proportionate share of total plan contributions

COMPARING ACCOUNTING RULES

	MSRPS	GASB	Moody's
Discount Rate	7.65% decreasing to 7.55%	Blended	4.33% (as of 6/30/2014)
Amortization Period	25 years from June 30, 2013 Level percentage of payroll	Some expensed immediately, some over future working lifetimes, investment returns over 5 years	20 years Level dollar
Asset Value	5-year smoothing	FMV	FMV
Annual Pension Expense	Normal Cost plus Amortization of unfunded liability over 25 year period	Normal Cost plus Interest on difference between Total Pension Liability and Market Value of Assets plus Recognition of gain/loss, benefit changes, assumption changes over periods from 0-7 years	Normal Cost at new discount rate plus Amortization of unfunded liability over 20 year period

COMPARISON OF REPORTED PENSION LIABILITIES

	MSRPS Actuarial Valuation	New GASB	Estimated Moody's
Maryland Liabilities	$18.8 B	$17.0 B	$35-50 B

Annual State Retirement and Pension System's Investment Overview

Presented to the
Joint Committee on Pensions

Department of Legislative Services
Office of Policy Analysis
Annapolis, Maryland

December 2014

Annual State Retirement and Pension System's Investment Overview

At the request of the Joint Committee on Pensions, the Department of Legislative Services (DLS) annually reviews the investment performance of the State Retirement and Pension System (SRPS) for the preceding fiscal year. This report is intended to provide an overview of the SRPS performance, a comparison of this performance to its peers, and an identification of issues meriting consideration by the joint committee during the upcoming legislative session.

State Retirement and Pension System Investment Performance

The system's investment return for fiscal 2014 was 14.4% net of management fees, exceeding its investment return target of 7.70% for the fourth time in the last five years. Public equities continued to lead the fund's strong performance, with broad indices of public equities surging upward – the U.S. domestic S&P 500 index rose 24.6% and the MSCI international index rose 21.8%. With public equities making up 38.9% of the portfolio, this impressive performance propelled the system to generate returns well in excess of its target.

As shown in **Exhibit 1**, the system's assets totaled $45.42 billion as of June 30, 2014, an increase of 12.8% over fiscal 2013 after accounting for benefit payouts and other expenses. This is the highest fiscal year-end balance in the fund's history and the second year in a row that the fund has exceeded the $40.0 billion level. As noted above, the strongest performing asset classes in fiscal 2014 were public equity (22.2%), private equity (19.6%), and real estate (14.2%). With financial markets still operating in a low interest rate environment, the two weakest classes were fixed income (4.6%) and real return (7.0%). Asset class performance is discussed in greater detail later in this report.

Exhibit 1
State Retirement and Pension System of Maryland
Fund Investment Performance for Periods Ending June 30*
($ in Millions)

			Time Weighted Total Returns		
	Assets	% Total	1 Year	5 Years	10 Years
Domestic Equity	$4,660.7	10.3%	26.1%	18.9%	7.7%
International Equity	5,502.6	12.1%	20.4%	11.5%	7.6%
Global Equity	7,508.0	16.5%	21.1%	15.4%	n/a
Fixed Income	6,706.3	14.8%	4.6%	6.5%	5.6%
Credit and Debt	4,557.2	10.0%	11.5%	12.0%	n/a
Real Estate	3,082.2	6.8%	14.2%	12.3%	8.4%
Real Return	5,461.7	12.0%	7.0%	6.9%	n/a
Private Equity	3,185.0	7.0%	19.6%	15.3%	12.8%
Absolute Return	4,252.1	9.4%	7.6%	6.1%	n/a
Cash	500.0	1.1%	0.8%	2.7%	n/a
Total Fund	**$45,415.6**	**100.0%**	**14.4%**	**11.7%**	**6.5%**

*Data presented here includes money invested by the system on behalf of the Maryland Transit Administration.

Note: Returns beyond one year are annualized. Returns are net of fees, except for 10-year returns, which are gross of fees. Columns may not add to total due to rounding.

Source: State Street Investment Analytics

As shown in **Exhibit 2**, total system assets increased by almost $5.0 billion from fiscal 2013 to 2014. In fiscal 2014, the system paid out $3.1 billion in benefits, the first time that figure has exceeded $3.0 billion, and total deductions were $3.2 billion. Income derived from employer and employee contributions totaled $2.5 billion, leaving an initial funding deficit of $0.7 billion; however, total investment income was $5.7 billion, more than covering the funding gap on a cash basis. Total deductions increased by 5.8%, and total additions increased by 4.5% over fiscal 2013 levels. This pattern is expected to continue due to restrained payroll growth combined with increasing rates of retirement among active members, which will put continued pressure on the investment program to continue covering the ongoing and expanding funding gap.

Exhibit 2
State Retirement and Pension System of Maryland
Statement of Changes in Net Assets Available for Plan Benefits
Fiscal 2013-2014
($ in Millions)

	2014	2013
Increase in Assets		
Contributions		
State and Other Employers	$1,733.6	$1,643.1
Member	727.7	710.9
Net Investment Income*	5,706.3	3,845.8
Total Additions	**$8,167.6**	**$6,199.8**
Decrease in Assets		
Benefit Payments	-$3,121.8	-$2,950.7
Administrative Expenses	-26.1	-26.3
Refunds	-42.9	-38.3
Total Deductions	**-$3,190.8**	**-$3,015.3**
Change in Assets During Period	**$4,976.8**	**$3,184.5**

*Dividends, interest, realized and unrealized capital gains.

Note: Data presented here includes the system's bank cash account but excludes money invested by the system on behalf of the Maryland Transit Administration. Columns may not add to total due to rounding.

Source: State Retirement Agency

Terra Maria Program

The Terra Maria program, the system's emerging manager program, continued to add value to the portfolio, but its performance has weakened compared with its early years. Now in its eighth year, the program's returns continue to exceed benchmarks, both on an annual basis and since inception. However, with the program exceeding its benchmark by just 24 basis points in fiscal 2014, annual performance has dipped considerably from its early years, when performance exceeded the benchmark by more than 100 basis points. The program has also continued to experience some retrenchment in size, both relative to total assets and in the total number of managers involved. After hitting its peak of 110 asset managers in fiscal 2012, the Terra Maria program finished fiscal 2014 with 89 managers, down from 94 in fiscal 2013. Total assets devoted to the program increased slightly, from almost $2.8 billion in fiscal 2013 to almost $3.0 billion in fiscal 2014. However, as a proportion of total assets, Terra Maria dropped from 6.9% of total assets in fiscal 2013 to 6.6% in fiscal 2014, reflecting stronger growth in total assets. These trends are driven in part by continued retrenchment in the system's public equity holdings, which comprise the vast majority of the Terra Maria program, as well as manager performance, with a handful of managers terminated during the year. **Exhibit 3** provides an overview of the Terra Maria program by program manager and asset class.

Exhibit 3
Terra Maria Program Performance
June 30, 2014
($ in Millions)

		Performance			
Program Manager	**Total Assets**	**Fiscal 2014 Actual**	**Fiscal 2014 Benchmark**	**Inception Actual**	**Inception Benchmark**
Attucks	$450.8	21.3%	21.3%	17.7%	16.3%
Bivium	333.9	22.2%	22.4%	16.5%	16.4%
Capital Prospects	455.0	22.5%	20.8%	20.1%	19.4%
FIS Group	388.4	23.3%	23.2%	16.8%	16.2%
Leading Edge	395.9	21.0%	21.2%	17.1%	16.6%
Northern Trust	650.4	19.4%	20.0%	6.1%	5.0%
Progress	306.9	4.6%	3.5%	9.8%	9.6%
Asset Class					
U.S. Equity	$1,356.3	25.3%	25.0%	9.2%	8.0%
International Equity	850.6	22.1%	22.0%	3.0%	1.1%
Global Equity	22.3	23.0%	23.0%	13.3%	14.5%
Fixed Income	509.2	4.2%	3.5%	7.7%	9.2%
Credit/Debt	208.0	13.6%	14.5%	10.0%	10.4%
Real Return	34.7	5.9%	4.4%	6.6%	6.4%
Total	**$2,981.2**	**19.6%**	**19.3%**	**6.5%**	**5.1%**

Note: Actual returns are net of fees; returns beyond one year are annualized. Total assets may not sum to total due to rounding.

Source: State Retirement Agency

For fiscal 2014, four of the seven program managers met or exceeded their performance benchmarks, and on the whole, program performance exceeded its benchmark by 24 basis points. Results are more positive when analyzed by asset class, with managers in five of the six asset classes meeting or exceeding their performance benchmarks. Only credit/debt failed to meet its benchmark, where three out of five asset managers failed to meet their individual benchmarks.

Since its inception, the Terra Maria program continues to add value to the portfolio, beating its overall composite benchmark by 139 basis points. This is the lowest level of excess annualized returns above benchmark since the program's inception, which reflects its maturation. Among asset classes, only domestic and international equity and real return have exceeded benchmarks since inception. All seven program managers are now beating their benchmarks since inception.

Performance Compared to Other Systems

According to the Trust Universe Comparison Service (TUCS), the system's fiscal 2014 investment performance was among the worst of 25 public pension funds with at least $25 billion in assets. The system's fiscal 2014 performance placed it at the ninety-fourth percentile, as shown in **Exhibit 4.** In the TUCS analysis, the one-hundredth percentile is the lowest ranking, and the first percentile is the highest. Maryland's ranking, therefore, showed no meaningful change in relative performance from fiscal 2013. Long-term performance rankings place SRPS in the bottom quartile for every timeframe examined. The TUCS rankings are based on returns gross of fees.

Exhibit 4
TUCS Percentile Rankings for Periods Ending June 30
Fiscal 2011-2014

	2011	2012	2013	2014
1 Year	87	75	93	94
3 Years	55	60	87	94
5 Years	87	81	68	84
10 Years	100	93	99	99

TUCS: Trust Universe Comparison Service

Source: Trust Universe Comparison Service

The TUCS rankings are useful for providing a snapshot assessment of the system's performance relative to other large public pension plans. However, the rankings do not identify the other funds against which SRPS is measured, and provides only limited information on their asset allocation, which has been shown to be responsible for most variation in performance among investment portfolios. Therefore, the rankings by themselves offer little by way of explaining why Maryland's performance lags behind that of other funds. However, data provided by TUCS on the risk-return profile of its members provide some explanation. The data show that the system's level of risk over the three-year period ending September 30, 2014, was below the median for other public funds with assets greater than $25.0 billion. In expanding markets, low-risk portfolios tend to generate lower rates of return than high-risk portfolios, so the system's below-median performance is somewhat predicted by its low-risk profile. However, the system's returns were lower than at least five other systems with lower-risk profiles, which indicates that its returns are lower than would be expected given its risk profile. Again, TUCS only measures relative performance at a given point in time, but provides very little information regarding the reasons for relative performance levels of its member funds.

A more in-depth examination of asset allocation and returns in comparable state pension plans further illustrates the relationship between allocations to equity and fund performance. In short, high allocations to public and private equity are associated with higher returns due to the run-up in those markets over the last few years. Based on data compiled by the State Retirement Agency (SRA), DLS identified eight other state pension funds with asset levels that exceed $25.0 billion, which is considered the SRPS peer group; these are shown in **Exhibit 5**. All eight funds outperformed SRPS in fiscal 2014. Five of the eight funds have public equity allocations that exceed Maryland's which largely explains their overperformance relative to SRPS. Of the three remaining funds with public equity allocations equal to or below Maryland's, Pennsylvania Teachers and Washington have the highest allocations to private equity, resulting in very high total exposure to equity. This largely explains their over-performance relative to Maryland. By contrast, South Carolina had lower allocations to both public and private equity but generated stronger returns than did Maryland in other asset classes, including real estate, fixed income, private equity, and hedge funds, to exceed Maryland's annual investment return. The system's asset allocation strategy is discussed further in the following section.

Exhibit 5
Performance and Asset Allocation of Public Pension Fund Peers
As of June 30, 2014

			Asset Allocation			
	Fiscal 2014 Performance	**Assets ($ in Millions)**	**Public Equity**	**Private Equity**	**Real Estate**	**Total Equity**
Massachusetts	17.6%	$60.7	43.1%	11.1%	8.9%	63.1%
Florida	17.4%	149.1	60.2%	5.4%	7.4%	60.2%
Washington	17.1%	78.0	38.9%	22.8%	12.9%	74.5%
New Jersey	16.9%	n/a	50.7%	7.6%	3.6%	61.9%
North Carolina	15.9%	90.1	46.8%	4.8%	8.4%	60.0%
Virginia	15.7%	66.0	43.6%	7.8%	8.8%	60.2%
South Carolina	15.3%	29.8	30.8%	8.9%	3.6%	43.3%
Pennsylvania Teachers	14.9%	53.3	21.9%	21.0%	14.3%	57.2%
Maryland	**14.4%**	**45.4**	**38.9%**	**7.0%**	**6.8%**	**52.7%**

Source: State Retirement Agency

Looking Ahead: The Future of SRPS Investments

Asset Allocation Continues Transition to Long-term Targets

In its annual spring review of asset allocation, the board did not make any changes to the overall strategic asset class targets. However, it did raise its maximum hedge fund allocation across all asset targets from 15.0% to 20.0% of total assets. At the time, total hedge fund allocation was 12.1% across all asset classes, including 6.9% outside of the absolute return asset class. The increase in the cap has little practical effect in the short term because the fund would not have exceeded its previous cap for another year or two. In the long term, it gives the system more flexibility to invest in a greater diversity of hedge funds. Aside from this one change, the system has focused its efforts on achieving its long-term strategic targets, as shown in **Exhibit 6**.

Exhibit 6
State Retirement and Pension System Asset Allocation
Fiscal 2012-2014

	Strategic Target 6/30/2014	Actual 6/30/2014	Actual 6/30/2013	Actual 6/30/2012
Equity				
Domestic Stocks		10.3%	11.6%	13.0%
International Stocks		12.1%	13.8%	15.0%
Global Equity		16.5%	17.0%	14.4%
Total Public Equity	**35.0%**	**38.9%**	**42.4%**	**42.4%**
Private Equity	10.0%	7.0%	6.2%	5.7%
Real Estate	10.0%	6.8%	5.8%	6.4%
Fixed Income	10.0%	14.8%	16.2%	19.2%
Real Return Strategies	14.0%	12.0%	12.6%	10.0%
Absolute Return	10.0%	9.4%	7.3%	6.8%
Credit/Debt	10.0%	10.0%	8.4%	7.8%
Cash and Other	1.0%	1.1%	1.3%	1.7%
Total Assets	**100.0%**	**100.0%**	**100.0%**	**100.0%**

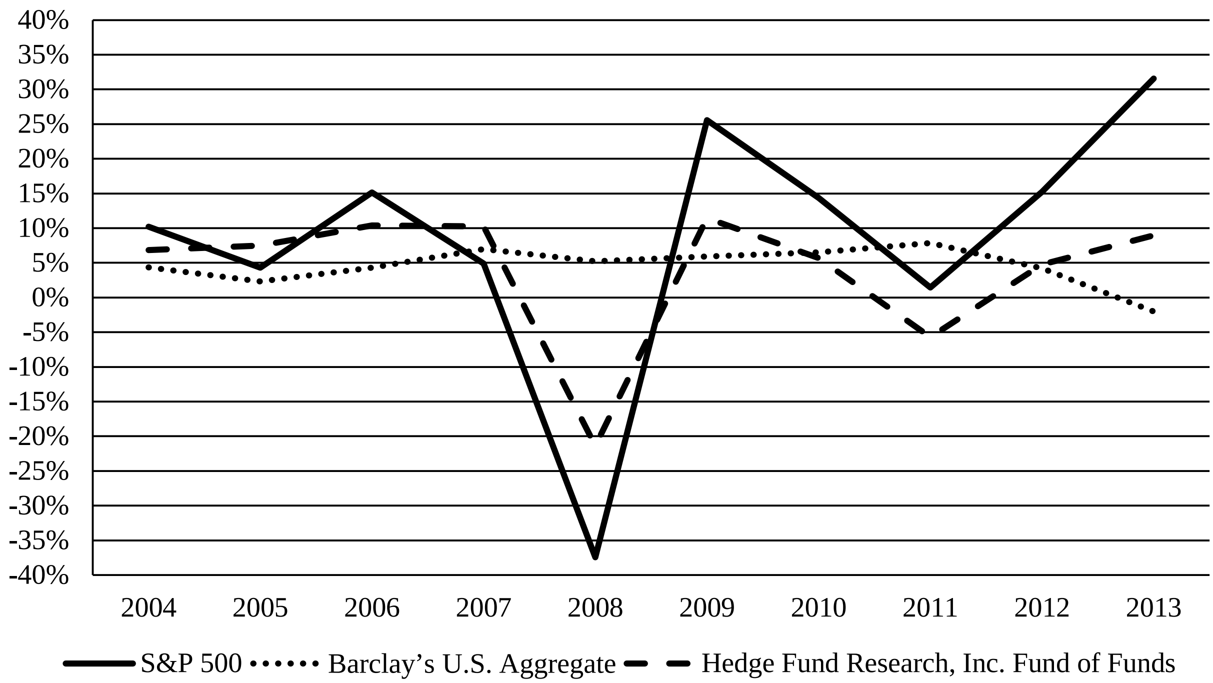
Note: Data reflects all system assets held at State Street. Columns may not add to total due to rounding.

Source: State Retirement Agency

Exhibit 6 also shows that, with the exception of real return, all asset classes moved closer to their strategic targets, continuing a trend that began with significant restructuring of the portfolio in fiscal 2008 and 2009. Most notably, public equity dropped from 42.4% to 38.9%, approaching its target of 35.0%, and fixed income dropped from 16.2% to 14.8%, moving closer to its target of 10.0%. There were corresponding increases to alternative asset classes, including private equity and absolute return.

DLS has consistently supported the system's overall strategy of diminishing its allocation to public equity as part of an overall approach to decrease risk through diversification in the wake of the 2008 financial crisis, and continues to do so. **Exhibit 7** shows why a shift from public equity to alternative strategies like hedge funds can benefit the fund in turbulent markets. In general, hedge fund performance tracks domestic equity performance, but with less volatility, and this has been especially true of the system's hedge fund portfolio. In fiscal 2009, for instance, when domestic equities dropped 26.3%, the system's small absolute return allocation (it was then only 2.6% of total assets) dropped only 6.4%, net of fees. These patterns are, in large measure, what prompted the system to shift assets from public equities to alternative strategies like hedge funds in an effort to derisk the portfolio. The overall strategy should not be abandoned just because public equities have been on a multi-year growth pattern, because doing so will not provide sufficient protection when equity markets decline.

Exhibit 7
Equity, Bond, and Hedge Fund Annual Returns
Calendar 2004-2013



Source: Standard & Poors, Barclays, Hedge Fund Research, Inc.

Nevertheless, in expanding markets, Exhibit 7 also shows that hedge fund returns frequently trail equity returns. In fiscal 2014, the system's public equity portfolio grew 22.1%, and the absolute return asset class grew just 7.6%. The persistent strength of the public equity markets raises legitimate questions about the extent to which the system has implemented its plan. Specifically, the long-term strategic target of 35.0% for public equity is among the lowest of large public pension plans and has resulted in bottom-tier performance compared with peer funds. Although DLS supports the system's diversification into alternative asset classes to reduce reliance on volatile public equities, it may be the case that the board has opted for a public equity allocation that is too low. **The Board of Trustees and SRA should comment on the appropriateness of the system's 35.0% target for public equities in light of persistent underperformance relative to large state pension funds. It should also comment on the system's underperformance relative to other public pension funds with low-risk profiles.**

Appendix 1 presents the fiscal year-end performance by each investment manager for fiscal 2011 and prior periods, by asset class, and subclass.

Investment Management Fees Continue to Grow, Providing Opportunity for Internal Management

SRPS incurred $331.2 million in investment management fees during fiscal 2014, a 20.5% increase over fiscal 2013 fees. As shown in **Exhibit 8**, management fees for the plan as a whole have grown substantially since fiscal 2008, when the system adjusted its asset allocation to invest more heavily in alternative asset classes with higher fee structures. The shift of public equity assets to global equity managers, which are almost all active managers, contributed significantly to the growth in fees over the past two years. However, the shift was also responsible for a significant improvement in public equity performance relative to its benchmark.

Rapid growth in investment management fees is not unique to Maryland, and it is prompting more large public pension funds to examine the option of moving more investment management functions in-house instead of relying solely on external managers. A major motivating factor in those decisions has been reducing investment management costs. According to *Pensions & Investments*, 26% of large public defined benefit pension funds report using internal management for at least a portion of their portfolio, but the proportion is growing. North Carolina became the latest state to expand internal management with the addition of 10 new investment positions with flexibility to pay market rate salaries. With SRPS assets reaching record levels, consideration should be given to examining the costs and benefits associated with employing internal asset management in selected areas to reduce management costs. DLS notes that moving to internal management would require substantial increase in staffing and flexibility to provide market rate compensation to a larger number of investment staff, but could also generate substantial net savings in management costs. **DLS asks that the board and SRA discuss the advantages and disadvantages of implementing internal management of some system assets, the prerequisites for implementing internal management, and the asset classes that would be the best candidates for internal management.**

Exhibit 8
Asset Management Fees Paid by Asset Class
Fiscal 2008-2014
($ in Millions)

	2008	2010	2012	2013	2014
Public Equity	$40.6	$55.4	$49.5	$67.2	$86.7
Fixed Income	10.0	7.9	9.4	11.5	9.6
Real Estate	20.9	25.1	30.0	24.7	26.4
Private Equity	12.6	35.6	44.6	53.8	59.3
Real Return	n/a	15.9	20.9	24.0	26.4
Credit and Debt Related	n/a	10.3	33.0	46.3	63.0
Absolute Return	n/a	13.5	26.0	34.7	33.2
Currency	n/a	14.4	9.2	9.0	7.0
Service Providers/Other	5.2	1.4	3.1	3.7	3.8
Terra Maria	n/a	n/a	16.5	n/a	15.6
Total	**$89.3**	**$183.7**	**$242.3**	**$274.9**	**$331.2**

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

Source: State Retirement Agency

Currency Program Has Mixed Results

The currency hedging program was a drag on returns during fiscal 2014 but has since provided significant benefits to the system. Adopted in fiscal 2009, the program is designed to protect against losing value when the dollar appreciates relative to currencies in countries in which the system holds assets. During periods when the dollar is weak, the currency management program offers a hedge, or protection, against dollar appreciation that can devalue international earnings. During those periods, the program's modest cost ($7.0 million in management fees during fiscal 2014) manifests as a slight drag on international equity holdings. However, when the dollar appreciates, the program provides returns that help offset, and sometimes exceed, the currency losses generated by the strengthening dollar. During fiscal 2014, with the U.S. dollar relatively weak against foreign currencies, the program lowered international and global equity returns. In international equity, for instance, the system earned 22.0% absent the currency program, but 20.4% after factoring in the cost of the currency program. As of June 30, 2014, the currency program had a net loss of $108.3 million since inception.

However, with the Eurozone and Japanese economies still struggling, and both central banks taking steps to stimulate growth through monetary policies, the dollar began strengthening over the summer. As a result, the performance of the currency program has rebounded, with net returns of $160 million since inception as of December 5, 2014. This is consistent with the program's overall design, which is intended to break even over the long term. The system has taken steps to lock in the program's gains, however.

Given the currency program's volatile performance since its inception, DLS questions the long-term need for the program. Over time, gains and losses due to currency fluctuations are expected to break even. The program is designed to minimize downside risks from currency fluctuations, but it has shown on several occasions that the drag on portfolio performance during times that the dollar is weak can be considerable. **The board and SRA are asked to discuss the program's weak performance during fiscal 2014 and its effect on their plans for the program's future.**

State Retirement Agency

Response to Questions Received from DLS

December 9, 2014

The Board of Trustees and State Retirement Agency should comment on the appropriateness of the system's 35% target for public equities in light of persistent underperformance relative to large state pension funds. It should also comment on the system's underperformance relative to other public pension funds with low-risk profiles.

The Department of Legislative Services notes in its annual investment report to the Joint Committee on Pensions that the State Retirement and Pension System's fiscal 2014 return of 14.37%, net of fees, ranked toward the bottom when compared to other pension funds with at least $25 billion in assets. To focus solely on the fund's ranking compared to its peers and attribute this ranking simply to the fund's current asset allocation without placing the decisions for the current portfolio structure in some context to past and potentially future market events, fails to provide a broader and more meaningful context. While TUCS has its value as a source of information, it should not be used to drive asset allocation decisions due to the vast differences in the plans that comprise the universe.

Before beginning any analysis of the fund's current asset allocation, it should be stressed that the fiscal 2014 return of 14.37% almost doubled the fund's assumed rate of return of 7.7% and also exceeded the fund's policy benchmark of 14.16%. The policy benchmark is the weighted average of each of the asset class benchmarks, and represents what the fund would have earned if benchmark returns were achieved. This benchmark enables the comparison of the System's actual performance to a passively-managed proxy and measures the contribution of active management and policy implementation to overall fund returns. In addition, while the fund's allocation to public equity may be lower than most other funds, it still represents the fund's largest exposure by a wide margin with a long-term target of 35%. The next largest allocation is real return at 14%.

To offer an adequate explanation of the rationale for the fund's current asset allocation, it would be helpful to first provide a historical overview of the fund during the 2008-2009 financial crisis. In the fall of 2008, the Board made a significant change to its long-term target allocation for public equities, reducing the allocation from 65% to 37%. Because any change of this magnitude must take place gradually due to the drawdown structure of private investments and the time required for comprehensive due diligence on new investments, the fund's equity exposure was 56.4% as of June 30, 2009. In fiscal year 2009, the fund returned -20%, with public equity sustaining the greatest losses. These losses were not entirely unexpected, inasmuch as the Agency recognized that, historically, public equity is one of the riskiest, most volatile asset classes. However, in the aftermath of these losses, the System was compelled to assess how much the fund could reasonably lose in future market crises and still recover.

This introspective analysis was necessary given that recovering from steep losses requires either huge extraordinary investment gains, increased contributions from the employer and employees, or both. As a simple example, a loss to the fund of 50% in asset values requires a gain of 100% just to get back to where the fund started. In acknowledging the need for contribution rate stability, coupled with the immense risk posture in which the fund potentially could be placed in the event of another market downturn, the System continued in its earlier decision to reduce its long-term target allocation to public equities to 35% over the 2011-2013 time period, accepting that it would likely represent an underweight to this asset class relative to the fund's peer group.

DLS has presented the joint committee with data that shows the fund's exposure to public equity is lower than most of its peers. During a time period when public equities generate unusually high rates of return, as they have for the last five years, the fund can be expected to underperform its peers who have higher allocations to public equities. However, during inevitable periods of market stress, the fund should exhibit lower downside risk and outperform those peers who have greater exposure to public equity. To illustrate this scenario, the fund's recently hired general consultant analyzed the performance of the current asset allocation under various economic scenarios compared to the performance of the average asset allocation of a peer group. As illustrated in Table 1, the fund's current asset allocation would have underperformed its average peer during periods of strong equity markets, but conversely, it would not have sustained as great a loss in times when the equity market was weak.

Table 1
Historical Scenario Analysis
(Cumulative Return)

Scenario	MSRPS Return	Average Peer Return
Calendar Year 2013	10.9%	15.9%
Calendar Year 2008	-23.0%	-25.5%
Global Financial Crisis (4Q07 through 1Q09)	-25.3%	-29.2%
Interest Rate Spike (1994)	3.7%	3.3%
Crash of 1987 (September through November 1987)	-9.2%	-11.8%
Popping of the dot.com Bubble (2Q00 through 3Q02)	-10.0%	-16.6%
Strong US Dollar (1Q81 through 3Q82)	2.2%	1.8%
Weak US Dollar (January 1986 through August 1987)	27.3%	29.3%
Stagflation (January through March (1980)	-5.5%	-5.8%
Stagflation (1Q73 through 3Q74)	-16.8%	-27.5%

Meketa Investment Group, November 2014

Recognizing that asset allocation is the main driver of performance, the System reviews asset allocation on an annual basis with extensive input from the board's general consultant and investment staff. To ensure a fresh perspective and asset allocation tools, the System periodically puts the general consultant contract out for bid through a competitive RFP process. Such a process was completed in the first half of 2014. As a result, the board hired a new general consultant in Meketa Investment Group, Inc. in July of this year. Since then, Meketa has been reviewing the current asset allocation and investment policies, and will play a critical role in the next scheduled asset allocation study in May 2015. The appropriateness of the current public equity allocation of 35% will be considered at that time. However, Meketa has not expressed any major objections to the current allocation to date. Additionally, at the request of the board, Meketa also has completed a peer fee analysis. The results of this analysis indicate that the fees paid by the System are competitive with peer funds of similar size, and in many cases are lower.

DLS also requested that the System comment on the underperformance relative to other public pension funds with low risk profiles. Several factors might account for this. In fiscal year 2014, the System's currency overlay program detracted from performance as the U.S. dollar weakened. Plans with no currency hedging program would not have experienced this negative effect. Different levels of geographic exposures might also explain some of the performance differential. The System does not have a home country bias in terms of its public equity program, meaning the exposure to U.S. equities is neutral relative to the global equity benchmark. Other peer plans may have an overweight to U.S. equities. This overweight would have enhanced returns as domestic equities have outperformed foreign equities over the past several years. Leverage could also account for differences in performance. Leverage involves the use of borrowed capital to increase the potential return of an investment. It magnifies both investment gains and losses. Over the past five years when financial markets have been strong, leverage would have enhanced returns. The System does not explicitly employ leverage outside of limited liability investment structures. Peer funds employing more leverage would have benefited from this strategy.

DLS asks that the board and State Retirement Agency discuss the advantages and disadvantages of implementing internal management of some system assets, the prerequisites for implementing internal management, and the asset classes that would be the best candidates for internal management.

The investment management model employed by the System for the past several years is external management, whereby external asset management firms are hired to manage the assets. Even before that, most of the assets were externally managed. DLS has suggested there is a growing trend among large public pension funds to manage more assets internally. The primary reason for this movement is cost savings garnered from in-house investment management that lead to improved investment returns. Another benefit internal management provides is greater control over the assets, which allows internal investment staffs to position portfolios to express broad macroeconomic views.

The transition from external to internal investment management is not however, without challenges. An effective in-house asset management platform would most certainly require additional resources in the areas of portfolio management, research, risk management, software and compliance. It would also be critical for the board to have the ability to attract and retain qualified professionals, as high turnover would be costly and disruptive in maintaining continuity in an internally managed strategy.

While internal management would be less costly than external management, it does have strategy implementation risks. There is no guarantee that the investment returns of an internally managed strategy would match or outperform an external alternative, even after fees are netted out. A high-quality, competitively compensated portfolio management team with a sound investment process would be required to mitigate this risk. That being said, the System is keenly aware of the negative effect management fees have on net investment performance. As performance is routinely reported net of fees, it is in the System's best interest to negotiate economic terms aggressively. In many cases, the System has been successful achieving preferential economic terms based on its size and capacity. The long-term horizon of the fund has also allowed the System to take advantage of lower fees, as fund managers are often willing to offer fee incentives to investors who are able to make longer-term commitments.

There is typically a progression when it comes to asset classes or strategies that are most appropriate for internal management. It is not uncommon for many plan sponsors to initially gain exposure to alternative asset classes such as private equity and hedge funds through fund of funds vehicles. These structures employ a single manager that has discretion to allocate to several individual funds. The investor pays a double layer of fees, one to the fund of fund manager and another to the underlying funds. Many plan sponsors have built up internal staff to avoid this double layer of fees by investing in individual funds directly. The primary model the Maryland System has adopted has been to invest in funds directly and not through a fund of funds vehicle. Other areas that are usually considered for internal management include passive mandates in public equity and fixed income. However, these strategies tend to have the lowest external management costs, and would not have a significant impact on the total amount of fees paid by the System. For example, in fiscal year 2014 the System paid roughly $2.3 million in external management fees for all of its purely passive mandates. While moving these mandates in-house could potentially reduce costs, it would not result in a major reduction in the total amount of fees paid.

Other asset classes and strategies that are less popular candidates for internal management include alternative asset classes and active strategies in traditional asset classes. These areas are more challenging to bring in-house due to strategy complexity in alternatives and the difficulty in achieving outperformance in the efficient public equity and fixed income markets. Due to the specialized skill set required for these strategies, a significant level of resources would have to be allocated to the implementation of internal management.

The board and State Retirement Agency are asked to discuss the currency program's weak performance during fiscal 2014 and its effect on their plans for the program's future.

The currency overlay program has been in place since May of 2009. The objective of the program is to provide some protection against a strengthening U.S. dollar and reduce the volatility of the currency portion of the Agency's non-U.S. equity investments over the long term. This objective of reduced volatility has consistently been achieved since the program was implemented. However, the ability of the program to generate monetary gains has not been consistent, as a long-term trend of U.S. dollar strength has not materialized over the last five years. This has resulted in periods of gains related to dollar strength, followed by periods of losses due to the dollar weakening. This is what took place in fiscal year 2014, where a weaker dollar erased the unrealized gains that accumulated in the currency program in fiscal year 2013.

Since the end of fiscal year 2014, the U.S. dollar has strengthened considerably as global central banks have attempted to stimulate economic growth and inflation with low interest rates and unconventional monetary policy. As of December 5, 2014, the fiscal year-to-date gain generated by the currency program was roughly $250 million. In light of this, an action plan has been developed to lock-in a significant portion of these gains while still leaving some protection in place in the event of continued dollar strength.

Overview of Optional Membership for Elected and Appointed Officials in the Employees' Pension System

Chapter 636 of 2014 charged the State Retirement Agency with studying the issue of the optional membership for elected and appointed officials in the Employees' Pension System. This report provides an historical overview of the optional membership provision as it evolved in State pension law to its current posture. In addition, the State Retirement Agency concludes this report with recommendations regarding the future of optional membership for elected and appointed officials.

During the 1939 legislative session, the Board of Trustees for the State Employees' Retirement System submitted recommendations to the General Assembly addressing the "advisability of creating a permanent and sound retirement system" for employees other than teachers. (The Teachers' Retirement System had been established in 1927.) In 1941, the recommendations of the Board were enacted through Chapter 377. This Act established Article 73B of the Annotated Code of Maryland, entitled "Pensions."

From the outset in 1941, § 3(5) of Article 73B stated that "membership in the retirement system shall be optional with any class of elected officials, or with any class of officials appointed for fixed terms." Chapter 793 of 1945 added more direction to the optional membership language. The amendments to § 3(5) state, in part:

> Such elected or appointed officials now in office may become members of the Employees' Retirement System by making application for such membership within six months after June 1, 1945. All officials hereafter elected or appointed may become members of the System upon making application therefor within six months after their election or appointment. All such officials shall be entitled to credit for prior service rendered by them to the State, including service rendered prior to the establishment of the Employees' Retirement System.

It would appear from these amendments that the legislature intended to maintain that membership would be optional for elected and appointed officials; but that the period of time they would have to elect to join the Employees' Retirement System (ERS) would now be restricted to six months from the date of their election or appointment. In addition, it is important to keep in mind that at this time vesting in the ERS was 20 years, making it nearly impossible for an elected or appointed official to earn a benefit in this system.

Section 3(5) of Article 73B remained virtually unchanged until 1959 when Chapter 805 of 1959 amended it to extend the period of time an elected or appointed official would have to elect to join the ERS from six months to 12 months after the official's election or appointment. Chapter 805 also included amendments that would allow officials to receive prior service credit rendered by them to a political subdivision of the State. In 1961, Chapter 107 again expanded the time period when an official could elect to join the ERS to provide that such an election needed to be completed at any time "before the expiration of their respective terms."

Following the enactment of Chapter 107 of 1961, several amendments were made to § 3(5) over the next 10 years. Membership remained optional for all elected and appointed officials, although the clarification that the appointments "for a fixed term" was repealed. Optional membership was expanded to include employees of the Governor's office and desk officers or other employees of either house of the General Assembly who receive an annual salary as compensation of such employment and who were considered to be an appointed official within the application of § 3(5). Also during this 10-year period the reference to officials receiving credit in the ERS for prior service rendered by them to a "political subdivision" was changed to "participating municipal corporation." This change would suggest that the legislature recognized that elected and appointed officials of participating governmental units were now facing the choice of whether to enroll in the ERS. Further amendments were made to § 3(5) during this period of time detailing the responsibilities of the participating municipal corporations with regard to any transfer of the funds necessary to cover the costs of prior service if an official chose to receive credit for the official's prior service with the municipal corporation.

Over the next 30 years (1970-2000), very few substantive changes were made to the optional membership provision. By 1980, § 3(5) of Article 73B was revised and moved to § 113(3) of Article 73B. Membership remained optional for elected and appointed officials, but the time period the official had to elect membership was removed entirely. Between 1980 and 2000, the only substantive change was to extend optional membership to members of the Prince George's County Board of Alcoholic Beverages License Commissioners, employees of participating governmental units who are employed by the participating governmental unit on the effective date of its participation in the State systems, and employees of Dorchester County who are not members of Dorchester County's general pension and retirement program. Beyond those additions, no further changes were made to the optional membership provision. Also during this period of time, the optional membership provision was moved to § 23-204 of the State Personnel and Pensions Article.

In 2000, both Kent County Board of Education and the Town of Oakland joined the Employees' Pension System (EPS) and sought legislation amending § 23-204 to make membership mandatory for individuals who were existing employees of each participating governmental unit on their effective dates of participation (Chapters 458 and 474 of 2000, respectively). According to the fiscal notes on each of those bills, both Kent County Board of Education and the Town of Oakland sought to modify the existing optional membership provision for existing employees of newly-participating governmental units joining the EPS out of concern that if one of their existing employees opted not to participate in the EPS, that individual would receive no pension at all, because the local plans would be terminated.

Chapter 532 of 2004 brought the first major change to optional membership since its inception in 1941. Chapter 532 was legislation sponsored by the Joint Committee on Pensions at the request of the Board of Trustees for the State Retirement and Pension System. Provisions of this bill included restricting optional membership to individuals who were employed within the existing groups previously included in § 23-204, if those individuals were employed in those positions on June 30, 2004. For example, existing elected and appointed officials who were serving in their respective positions on June 30, 2004 would continue to have the option to join the EPS; however, any individual becoming an elected or appointed official on or after July 1, 2004, would be required to join the system. Testimony for the Board stated that it believed membership had been optional in the past due to the onerous vesting requirements (again, at one point, it was as great as 20 years), making it almost impossible for individuals in these positions to earn a benefit from the ERS or EPS. That being said, in 2004, an EPS member was required to accrue only five years of eligibility service to vest in the system. Because EPS members can earn a year of eligibility service for any fiscal year in which they work 500 hours, it was possible at that time for elected and appointed officials to accrue five years of eligibility service during four calendar years and be vested after serving one term of office. Moreover, the Agency noted that requiring these individuals to join the EPS would ensure they were protected with disability and death benefits.

Following this major departure, Chapter 627 of 2006 provided a slight exception to mandatory membership. Chapter 627 stated that membership in the EPS would be optional for the Sheriff of Baltimore City, but also provided that if the Sheriff did not elect to join the EPS within six months of taking office, the Sheriff would be enrolled in the Law Enforcement Officers' Pension System as a condition of employment. In addition, Chapter 239 of 2006 clarified that employees of the City of Frostburg, similar to employees of the Kent County Board of Education and the Town of Oakland, would all be required to join the EPS regardless of whether they were employed by the City of Frostburg on or before June 30, 2004.

The small exception established through Chapter 627 of 2006 was expanded through provisions of Chapter 334 of 2007, again making membership in the EPS optional for elected and appointed officials under limited circumstances. Chapter 334 (Senate Bill 515) provided that elected or appointed officials would have one year from election or appointment to join either the Employees' Pension System or another retirement or pension system operated under the laws of the State or a political subdivision of the State. However, if there was not a second system in which these officials could enroll, membership would be mandatory in the EPS.

From 2008 through 2014, various bills were introduced on behalf of participating governmental units that joined the SRPS during that period of time. The Town of University Park (Chapter 632 of 2009) and the Town of Sykesville (Chapter 413 of 2009) had legislation enacted to ensure that membership in the EPS was mandatory for all of the employees of each of the towns, regardless if any of the employees were employed on the effective date of participation and also employed on or before June 30, 2004. Conversely, the Town of Berwyn Heights (Chapter 171 of 2008) and the City of College Park (Chapter 635 of 2014) had legislation enacted to provide optional membership in the EPS to all current employees of the Town and City, employed by the entities prior to the effective date of participation.

Finally, the most recent piece of legislation enacted that amended § 23-204 was Chapter 636 of 2014. This legislation provided optional membership for various appointed officials of Prince George's County.

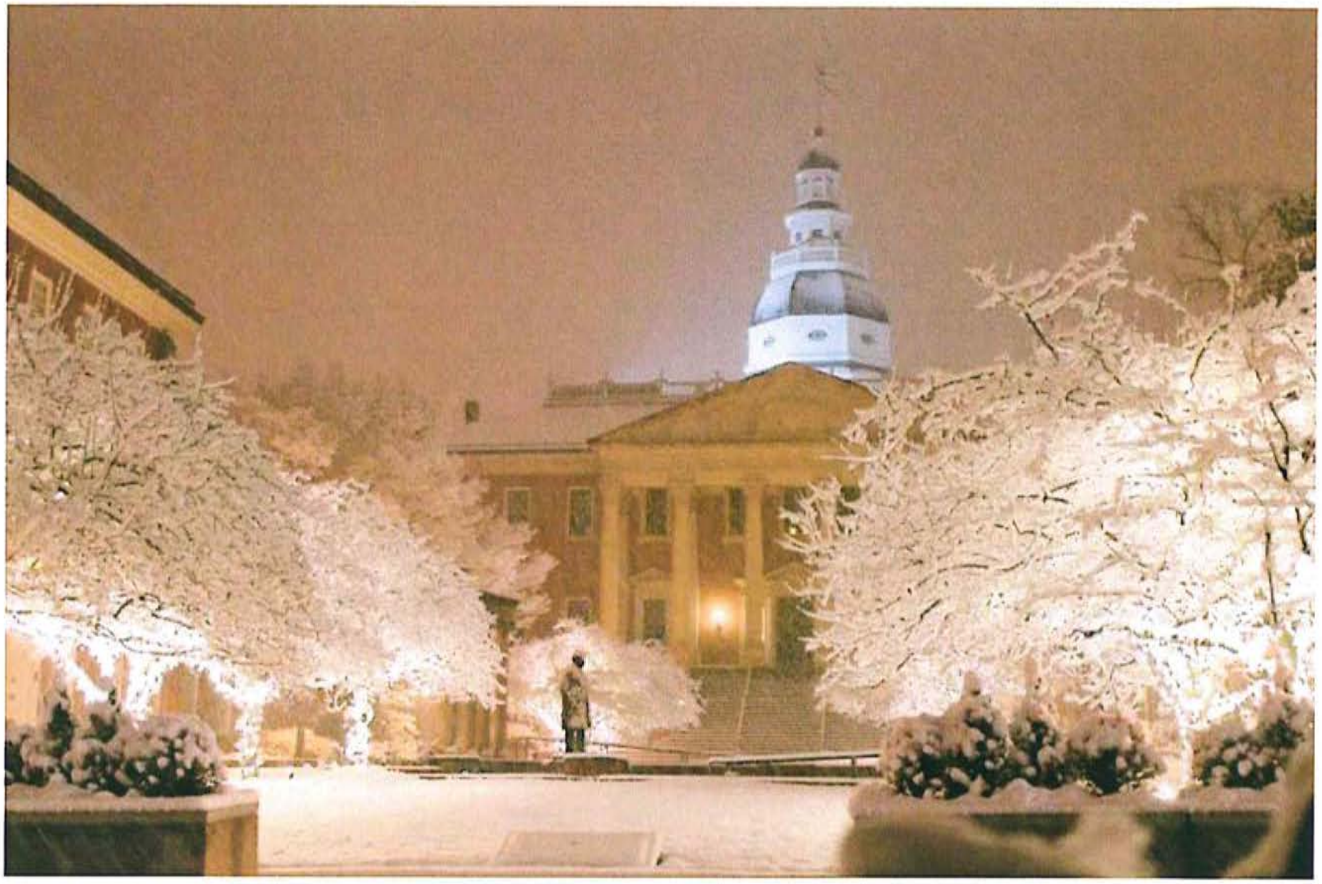
A review of the legislation enacted since the passage of Chapter 532 of 2004 requiring mandatory membership for all elected and appointed officials, would suggest local governments would prefer a return to optional membership for their elected and appointed officials. This is supported by the fact that the argument to move to mandatory membership because vesting had been reduced from 20 years to 5 years over the period of time optional membership had been in place, is no longer relevant. With a return to longer vesting (10 years), local elected and appointed officials now have to serve two and one-half terms before becoming eligible for retirement. Moreover, there may be towns and municipalities participating in the SRPS that have two year terms of office for their elected and appointed officials, which in turn would make vesting even more cumbersome.

In addition, these individuals are required to contribute 7% of their annual salary toward a benefit for which they may not become eligible. The employers for local elected and appointed officials have also expressed concern that they will be required to make employee contributions on behalf of these individuals. Yet, unlike the non-vested member who may receive a return of the member's accumulated contributions at the time the member stops serving as an elected or appointed official, the employer will not receive a return of employer contributions made on behalf of this individual.

In light of these concerns that have been raised by both local elected and appointed officials and their employers, staff for the State Retirement Agency would recommend amending § 23-204 of the State Personnel and Pensions Article to more closely reflect the wording of the original optional membership statutes during the period from 1941 through 1961. During that period of time, membership was optional for "any class of elected officials, or with any class of officials appointed for fixed terms." Language similar to this, or perhaps with even more specific identifying criteria, would provide the Agency with guidance in determining whether an individual is, in fact, an appointed official.

Additionally, staff would also recommend similar language from the first versions of the optional membership provisions that placed a statute of limitations on the period of time during which an elected or appointed official could elect membership in the EPS. Initially this period of time was six months but was later extended to 12 months from the date of taking office. A 12-month statute of limitations to elect to join the EPS would be consistent with the period of time the legislature provided members to elect to join the Teachers' Pension System (TPS) or the Optional Retirement Plan (ORP). Further, stipulating a definite period of time when the election to participate shall be made satisfies the concerns the Agency's tax counsel raise in 2006 when the time constraints were placed on members choosing between the TPS and the ORP.

Board of Trustees
2015 Legislative Proposals



Prepared by
The Maryland State
Retirement & Pension System

November 18, 2014

2015 Board Requested Legislation

The following legislative proposals are offered by the Board of Trustees for the State Retirement and Pension System for the Joint Committee on Pensions' consideration for the 2015 legislation session. These legislative proposals are divided into two parts. The first part relates to code simplification. This includes three proposals presented as a package to make technical and clarifying changes to reduce the complexity of Maryland's pension law. The second part consists of three separate proposals designed to clarify or correct perceived inconsistencies within existing law. These proposals, if approved by the board, will be presented to the joint committee for its consideration to sponsor as legislation for the 2015 legislative session.

Code Simplification – Technical Changes

The State Retirement Agency (Agency) has identified three areas of the State Personnel and Pensions Article believed to be in need of simplification or clarification.

Title 27 – Judges' Retirement System

When members of the several systems leave prior to vesting in their respective plans, the Agency advises these individuals of their options to either withdraw their accumulated contributions or leave them in the State Retirement and Pension System (System) if they think they may be returning to State service prior to their membership period ending. However, those members who may initially choose to leave their contributions with the System may reconsider their decision and withdraw their contributions at any time.

In 2012, legislation was enacted that would require members of the Judges' Retirement System (JRS) to accrue five years of service in order to vest in the JRS. Prior to this time, members of the JRS enjoyed immediate vesting in their plan. As a result of this vesting requirement, an individual could be appointed to the bench and leave the judiciary within five years and never vest in the plan. Yet, unlike members of the other plans in the System who may withdraw their contributions at any time after terminating employment, language under § 27-405 of the State Personnel and Pensions Article restricts JRS members to withdrawing their employee contributions "at the time of termination of service, or within 6 months thereafter." Inasmuch as no other plan includes a similar limiting provision, the board would recommend removing the limitations in place for a JRS member to withdraw employee contributions.

Section 27-406 of the State Personnel and Pensions Article governs reemployment of JRS retirees. During the 2010 legislative session, this provision was amended to exempt a retiree of the JRS from a reemployment earnings limitation if the retiree returned to work for the State. This provision sunsetted June 30, 2014. Instead of extending the sunset date on this exemption during the 2014 legislative session, § 27-406 was amended to provide similar language included in the provisions governing the other several systems, stating that a member would only be subject to the earnings limitation for the first five calendar years following retirement. Staff for the Agency has found that this amendment, in addition to others that have been made to § 27-406 since 2010, have created inconsistencies and duplicative language in this section, making it difficult to implement. Consequently, the board is recommending clarifying non-substantive changes to § 27-406 to remove the duplicative and inconsistent language.

There is no cost associated with these proposals to the JRS.

Correctional Officers' Retirement System – Chapter 188 of the Acts of 2014 (Senate Bill 665)

Chapter 188 of the Acts of 2014 added correctional officers who begin serving as security chiefs, facility administrators, assistant wardens, or wardens on or after July 1, 2014, as members of the Correctional Officers' Retirement System (CORS) as a condition of their employment. Chapter 188 further provides that correctional officers who were serving in those positions on June 30, 2014, would have six months to transfer their service credit from the Employees' Pension System (EPS) to the CORS if they continue serving in those positions on July 1, 2014. The legislation also stipulated that these transfers of service credit would be done in accordance with Title 37 of the State Personnel and Pensions Article.

Agency staff has determined that, as drafted, Chapter 188 has a technical issue that needs to be addressed through legislation. This legislation only allows correctional officers who were members of the EPS the opportunity to transfer their EPS service credit into the CORS. Staff has found two members of the Employees' Retirement System (ERS) who meet the criteria of the bill; however, due to their membership in the ERS, they are currently not eligible to transfer their service credit back to the CORS. Therefore, the board is recommending amending Chapter 188 to include members of the ERS.

There is no cost associated with this proposal.

State Retirement and Pension System – Definitions

Finally, § 20-101(aa-1) of the State Personnel and Pensions Article defines the non-contributory pension benefit to mean "the part of the EPS and Teachers'; Pension System (TPS) that does not provide the contributory pension benefit under Title 23, Subtitle 2, Part II of the article or the Alternate Contributory Pension Selection under Title 23, Subtitle 2, Part III of this article." When the Reformed Contributory Pension Benefit was created under Title 23, Subtitle 2, Part IV of the State Personnel and Pensions Article in 2011, it was inadvertently omitted from this definition. The board is recommending § 20-101(aa-1) be amended to include the Reformed Contributory Pension Benefit in the definition for non-contributory pension benefit.

There is no cost associated with this proposal.

Unclaimed Accumulated Contributions

Staff for the Agency reports that there are currently more than 38,000 non-vested member accounts of individuals who have terminated employment with a participating employer of the System prior to vesting and did not withdraw their accumulated contributions at the time they ceased employment. Many of these accounts have a balance of less than $75. Staff further reports that in an effort to return these funds to the former members, it makes three mailings to each account, requesting the former member to withdraw his or her accumulated contributions. In addition, staff also posts notices on its website of the names of any inactive participant who is entitled to a refund of accumulated contributions. It should also be noted that staff had previously used the Internal Revenue Service letter forwarding program to locate missing former non-vested members, though, due to the IRS discontinuing that program, that service is no longer available.

With vesting now set at 10 years for most of the several systems, it is likely that the number of these non-vested member accounts will only increase each year. Currently, these accounts are included in the Agency's primary database for all active and retired members. By commingling these participant accounts (active and inactive), if a non-vested inactive employee returns to work with a participating employer later in their career, a risk exists that proper enrollment as an active member at this point could be compromised if the Agency's computer system inadvertently reactivates the individual's non-vested account. Moreover, the accumulated contributions associated with the inactive account, are deposited in the System's annuity savings fund. A member's accumulated contributions are reserved in this fund until the member retires, at which point the funds are transferred to the System's accumulation fund where payment of the member's retirement benefits begins. To avoid carrying these inactive non-vested accounts indefinitely in the annuity savings fund, staff would recommend that after four years (after membership has terminated) the funds from these accounts would be transferred from the annuity savings account to the accumulation fund. Transferring these funds to the accumulation fund would not result in the inactive participant forfeiting the right to a return of the individual's accumulated contributions at any time in the future. To ensure that these individuals will always be able to access their accumulated contributions staff will maintain the necessary records on each inactive participant, making recovery of these funds uncomplicated. Therefore, the board is recommending amending §§ 21-303 and 21-311 of the State Personnel and Pensions Article to allow these funds to be transferred from the annuity savings fund to the accumulation fund and later be returned to the inactive participant from the accumulation fund when the individual returns at some point in the future.

There is no cost associated with this proposal.

Accumulated Unused Sick Leave

Section 20-206 of the State Personnel and Pensions Article states that members of the System may receive additional creditable service for unused sick leave at the time of their retirement. Specifically, § 20-206 states that unused sick leave means sick leave credit that has not been used before retirement. At the time of a member's retirement, the employer is required to certify the balance of unused sick leave to the Agency. Based on the unused sick leave balance reported by the employer, the Agency calculates the additional credit that is added to the member's retirement record. A member may receive one month of service credit for 22 days of unused sick leave.

Recently, staff has been made aware that some participating employers, prior to reporting unused sick leave to the Agency on behalf of a member, are converting other types of leave, such as unused annual leave, that has not been cashed out by the member. In response to these actions, the executive director for the Agency has informed these employers that "an employer may only report unused sick leave that was available to the employee as sick leave during employment." The position of the executive director to the affected employers reflects the ruling by the Harford County Circuit Court on this very issue in 1994, upholding the board's longstanding interpretation of the statute.

To avoid future inconsistent interpretations of § 20-206, the board is recommending clarifying this section to reflect the 1994 decision of the Harford County Circuit Court by specifically providing in § 20-206 that only unused sick live that was available to the employee as sick leave during employment may be reported by the employer to the Agency.

There is no cost associated with this proposal. In fact, it is likely this proposal will save the system a de minimus amount through slightly lower totals of sick leave being reported to the Agency.

Combining Prior Service Credit with the Reformed Contributory Pension Benefit (Chapters 577 and 578 of the Acts of 2014)

Chapters 577 and 578 of the Acts of 2014 (Senate Bill 1082 and House Bill 1483, respectively) allow members of either the EPS or TPS who are subject to the Reformed Contributory Pension Benefit (RCPB) and have prior service credit in a part of the EPS or TPS that has a different member contribution and benefit accrual to combine their prior and current eligibility service credit in their RCPB account. In part, this legislation requires that a member may combine this prior eligibility service with their current RCPB eligibility credit if the member deposits the member contributions, that would have been due if the member had earned the prior credit in the RCPB, plus regular interest on the contributions. Given that the member contribution rate in the RCPB is currently 7%, RCPB members interested in combining previous EPS or TPS service with their current account will be required to deposit member contributions at this rate for this previous service credit, plus interest. In instances where a member is combining previous service from the member's vested Alternate Contributory Pension Selection (ACPS) account, the individual would be required to deposit an additional 2% in member contributions, plus interest, – the difference between the RCPB rate of 7% and the ACPS rate of 5%. For members seeking to combine service from the contributory or non-contributory plans of the EPS or TPS, the amount to be deposited would be greater.

To avoid confusion regarding the proper member contribution rate to use when participants seek to combine previous EPS or TPS service with their RCPB services, the board is recommending amending § 23-303.1 of the State Personnel and Pensions Article to clarify that when combining service into the RCPB, the member contribution rate in effect for the RCPB at the time the request to combine service is made, is the rate that will be used to determine the amount the participant will be required to deposit, with interest. Moreover, this amendment would codify the current practice of the Agency.

There is no cost associated with this proposal.