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## **SB 322 - Maryland Teachers and State Employees Supplemental Retirement Plans - Automatic Enrollment**

**Appropriations Committee  
March 27, 2024**

### **UNFAVORABLE**

AFSCME Council 3 opposes SB 322, which mandates that new state employees hired on or after January 1, 2025, shall have an undetermined amount automatically deducted from their paychecks for enrollment into the Maryland Teachers and State Employees Supplemental Retirement Plan (MSRP). Within 90 days of beginning employment, the Board, responsible for determining the deduction amount and funded through a fee imposed on members' accounts, must notify each employee automatically enrolled in the Plan of the opt-out process for contributions.

### **SB 322 is the Wrong Policy Choice for State Employees**

We support the ability of our members to pursue defined contribution “(DC)” retirement plans of their choosing. The purpose of supplemental DC plans is to provide wealth in retirement, which differs from defined benefit “(DB)” pension plans whose main purpose is to maintain the worker's cost-of-living in retirement. We oppose auto-enrollment into supplemental DC plans because, as a retirement policy, we strongly believe that employees should only be asked to opt-in to these higher-risk plans, not be required to join and then opt-out of it. The State of Maryland already offers a \$600 match as an incentive to entice participation in a supplemental retirement plan, still, many of our members who live paycheck-to-paycheck have not opted into the MSRP supplemental plan because they cannot afford to. As retirement policy, pensions are the best way to ensure all our seniors can at least maintain their cost-of-living at retirement. Maryland already supports a pension system for state employees, which we believe is the wiser investment. Further, the MSRP's selected plan may not align with the long-term financial goals of our members, so they should not be required to join their plan upon hire. Decisions on which type of supplemental retirement plan to join are ideally made with an unbiased financial advisor who can recommend several different plans based on the employee's individual financial circumstances. However, MSRP only provides employee counseling currently on plans administered by Nationwide since they are the contracted vendor.

### **Pension (DB) Plans vs. Supplemental Retirement (DC) Plans**

DB pension plans provide a fixed quarantined income to retirees, while DC supplemental plans can increase or decrease drastically with market fluctuations altering both contribution amounts and the final payout to the retiree.

DB pension plans also bear the investment and longevity risks, relieving retirees from the burden of managing their investments. In DC supplemental plans, individuals assume these risks, which can lead to a lot of uncertainty about the adequacy of their savings since there's no guarantee of receiving the full investment return. Furthermore, DC plan participants often incur high fees also, which can further diminish the return.

### **No Employee Voice on MSRP Board**

AFSCME also continues to oppose automatic deductions into a Retirement Plan where employees have no voice. Unlike the Board of Trustees for the Maryland State Retirement and Pension System (SRPS), which holds elections for dedicated seats for employee representatives from both active and retired state employees and teachers, the Board for the MSRP offers no seats which are dedicated to current or retired state employees. Our members deserve to have oversight and a say with how their retirement money is invested.

### **Pensions, not Supplemental Plans Help with Recruitment and Retention**

In April 2023, the National Institute on Retirement Security published an extensive [analysis](#) on the effect that switching Alaska's public employees from DB pension plans to 401(k)-style DC accounts had on retention for public educators in the state. Their analysis found that the difference in turnover for women in the DC plan was 138% higher than in the DB plan, and for men, it was 189% higher in the DC plan. The lesson from this study for Maryland is that turnover rates significantly increase where public employees have DC plans, and they significantly decrease once employees are vested in a DB pension plan. Efforts to improve the pension benefit will help far more with staffing than auto-enrolling new employees into a supplemental plan they may not be able to afford, and over which they have no say in how the money is being invested.

Our members, who dedicate a career in state government to serving Marylanders, deserve to retire with dignity. We appreciate the efforts and attention the committee has shown for rebuilding our state government and improving the recruitment and retention of state employees. We agree that retirement benefits can be an important motivator for pursuing or staying in a career in state government. Unfortunately, SB 322 falls short of these goals. We ask the legislature to work with us to improve benefits within our existing pension systems, rather than propping up riskier supplemental retirement plans that again, are unaffordable for many of our members.

For these reasons, we respectfully request an unfavorable report on SB 322.

