MSRP

Maryland
Teachers & State Employees
Supplemental Retirement Plans

457 • 401(k) • 403(b) • Match

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Date: March 28, 2024

To: Hon. Ben Barnes, Chair
House Appropriations Committee

From: Ronda Butler Bell, Executive Director & Board Secretary Ronda B. Bell
Maryland Teachers & State Employees Supplemental Retirement Plans

Re: **Follow-up Information – SB0322 Bill Hearing – 3/27/2024 1:00 p.m.**
Maryland Teachers and State Employees Supplemental Retirement Plans – Automatic Enrollment

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On behalf of the Maryland Supplemental Retirement Plans Board of Trustees (the "Board"), I am providing this clarifying information in response to some of the information contained in the testimony provided by Ms. Denise Gilmore, Legislative Director of AFSCME, Council 3, during yesterday afternoon's Appropriations Committee hearing on Senate Bill 322.

1. ***I understand there's an opt out provision, but I think for the same reasons that people talk about maybe not having ever learned about the supplemental plan, I will say that we are also very skeptical that the same mechanism is going to somehow produce enough communication to allow folks to opt out of a deduction that, quite frankly, many of our members who are working paycheck to paycheck simply can't afford.***

   Because MSRP is a State employee benefit administered by a State agency, our team collaborates with DBM's Office of Personnel Services as well as the human resources representatives of other eligible State employers. The major barrier to all eligible State employees being educated about MSRP is the fact that the State of Maryland has multiple email platforms. The multiple platforms make it necessary for MSRP to rely solely upon the <u>over 600 State Benefit and Retirement Coordinators</u> to forward these email notifications to their respective employees. Automatic enrollment will help to eliminate this significant obstacle as new employees are hired and auto enrolled in MSRP as a part of their standard State benefits package.

   If Senate Bill 322 passes, employees hired on or after January 1, 2025 will receive the following:

   a) notification of being automatically enrolled in the MSRP benefit and an automatic enrollment FAQ document (which will include all details on the opt-out process) from their respective State Benefit and Retirement Coordinators and/or HR Directors during new employee orientation/onboarding;
   b) an acknowledgement of receipt of the State's automatic enrollment policy that they will sign to signify they received the policy and education on the process;
   c) education from a member of MSRP's Member Services Education Team of Certified Retirement Counselors, who will present comprehensive information on automatic enrollment and the MSRP benefit during new employee orientation sessions; and
   d) a hard copy letter from MSRP's Plan Administrator (currently, Nationwide Retirement Solutions) with the appropriate notifications and information on automatic enrollment and the automatic enrollment FAQ document.

Senate Bill 322 is not applicable to current State employees, including employees who are members of AFSCME. Automatic enrollment will have no impact on existing State employees.

All participants in MSRP are able to adjust their contribution amounts up or down at any time and may also elect to cease or resume all MSRP payroll deductions as they so choose. So, an employee who chooses to cease payroll deductions will never be required to resume the payroll deductions unless s/he chooses to do so.

The lowest State salary (DBM and MDOT) for FY 2024 is $35,041. The lowest FY 2024 salary for the University of Maryland System is $32,391. The State of Maryland's current deduction for contributions to the Maryland State Retirement and Pension System is 7% of employee salaries. The lowest FY 2024 salaries listed below, along with auto enrollment amounts and pension deduction percentages, are for four states that have adopted automatic enrollment into their respective supplemental retirement plans and are profiled in MSRP's Automatic Enrollment Study.

State	Auto Enrollment Deduction Amount Implemented	Lowest Salary FY 2024	Year Implemented	Defined Benefit Pension Percent of Salary Deducted
Ohio	$25/per pay	$26,790	2022	10%
Kentucky	$15/per pay	$24,878	2019	9%
South Dakota	$25/per pay	$26,204	2009	6%
Texas	1% of salary per pay	$21,893	2008	6%

2. ***I will say a pretty big difference, for us at least, between the State Supplemental Plan and the State Pension Plan is at least on the Pension Plan active and retired employees also have seats on the Board, so they get the chance to obviously provide way more oversight over this process. There are no dedicated seats on the supplemental plan for active and retired State employees, so there really isn't that opportunity to make sure the oversight's happening for them.***

MSRP is an independent State agency that is governed by a nine-member Board of Trustees that is appointed by the Governor. By law, 6 of the 9 members must be active or plan-eligible State employees. Currently, 4 of the 8 MSRP Trustees serving are active Maryland State Government employees (including Treasurer Dereck Davis), and one Trustee is a plan eligible member who is a retired State employee with an active MSRP account (who previously served on the Board as an active State employee). Only one-third of the Board seats are designated for members of the public. There is currently one vacancy for a plan-eligible member.

State Personnel and Pensions § 35–202 sets forth the following:

(a) (1) The Board consists of nine members appointed by the Governor.

(2) Of the nine members:

(i) three shall be from any of the following units:

1. the Department of Budget and Management;
2. the Department of Education;
3. the Office of the State Comptroller;
4. the Office of the State Treasurer;
5. the State Retirement Agency; or
6. the Maryland Higher Education Commission;

(ii) three shall be individuals who are eligible to participate in one of the supplemental retirement plans, at least one of whom shall be an employee described in § 403(b)(1)(A)(ii) of the Internal Revenue Code; and

(iii) three shall be members of the public who are not eligible to participate in any of the supplemental retirement plans, at least one of whom shall have experience with deferred compensation and salary reduction plans.

3. ***I want to make it very clear that we are not opposed to supplemental plans. We're opposed to the State auto enrolling people in a supplemental plan that may not even be best for them or their longtime financial future.***

   The proposed designated default Plan for auto-enrolled new State employees will be the 457 deferred compensation plan (the "457(b)"), and employees will be enrolled into target date fund investment vehicles that correspond to their anticipated retirement date range (which is based upon their year of birth). A 2021 Vanguard Research study (cited in MSRP's Automatic Enrollment Study) found that 99% of the 520 plans surveyed chose target date funds as the designated default investment vehicle for automatic enrollment.

   In the retirement industry, 457(b) plans are known to provide employees with a high level of flexibility. MSRP notes below the following advantages:

   a) the 457(b) Plan is available to all State employees who are eligible to participate in MSRP;
   b) there is no 10% IRS pre-retirement withdrawal penalty assessed to an employee who leaves State service and chooses to take a withdrawal and *not* roll the account into a new employer's 457(b) plan; and
   c) there is an increased deferral/contribution limit to allow for "catch up" retirement savings during the last 3 years before the employee reaches the standard retirement age.

   <u>After an employee is enrolled in MSRP, s/he can select other options from the investment lineup and diversify investments among their options, as they so choose.</u> There are investment options that are appropriate for employees with varying degrees of risk tolerance.

We appreciate the opportunity to testify in yesterday's hearing and to provide more clarification. Please let me know if there are any questions. We are happy to provide any additional information you may need. We are hoping for a favorable report on Senate Bill 322.