190 W. Ostend St., #101
Baltimore, MD 21230
Phone: 410-547-1515
Email: info@afscmemd.org

Patrick Moran – President

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

Budget and Taxation Committee
February 8, 2024

UNFAVORABLE

AFSCME Council 3 opposes SB 322. This legislation requires new state employees hired on or after January 1, 2025, to 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 who also determines the amount of the deduction and is funded through a fee imposed on members' accounts, must provide notice to each employee being automatically enrolled in the Plan of the process for opting out of the contribution.

Many of our members are living paycheck-to-paycheck. They already contribute to a defined benefit (DB) pension plan, and while we fully support our members having a choice to join a supplemental defined contribution (DC) plan of their choosing, this bill goes too far by requiring them to join an MRSP plan that has high fees and may not be the best deal for where the employee is with their long-term financial goals. The MSRP announced over the fall that as much as 24% of an employee's into their plan could go towards fees. If an employee invests $100,000, that means as much as $24,000 could go towards Nationwide alone under the current structure. We represent members who's starting salary is only a little over $35,000/year. Paying the equivalent of almost 70% of your yearly salary to fees is unreasonable. Further, with DC plans there's no guarantee that the amount you put in is what you will get when you retire. So in addition to paying high fees, employees may also not get their full investment in return.

AFSCME also continues to oppose automatic deductions into a Plan that employees have no voice in. Unlike the Board of Trustees for the Maryland State Retirement and Pension System (SRPS), which has employee representation both from active and retired state employees and teachers, the Board for the MSRP has no employee representatives.

We appreciate the committee's continued advocacy to make sure our members, who dedicate a career to serving Marylanders in state government, can retire with dignity someday. We also 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 332 falls short of these goals.

In April 2023, the National Institute on Retirement Security published an extensive analysis on the effect that switching Alaska's public employees from defined benefit (DB) pension plans to 401(k)-style defined contribution (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 in this study for Maryland is that turnover rates 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 which they have no say in how the money is being invested.

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

Council 3 AFSCME MARYLAND