G50L00
Maryland Supplemental Retirement Plans

Operating Budget Data

($ in Thousands)

	FY 17 Actual	FY 18 Working	FY 19 Allowance	FY 18-19 Change	% Change Prior Year
Special Fund	$1,783	$1,769	$1,778	$9	0.5%
Adjustments	0	40	10	-29	
Adjusted Special Fund	**$1,783**	**$1,810**	**$1,789**	**-$21**	**-1.1%**
Adjusted Grand Total	**$1,783**	**$1,810**	**$1,789**	**-$21**	**-1.1%**

Note: FY 18 Working includes targeted reversions, deficiencies, and across-the-board reductions. FY 19 Allowance includes contingent reductions and cost-of-living adjustments.

- The budget includes a fiscal 2018 deficiency for $57,300 in special funds for agency operations. The deficiency is partially offset by a contingent reduction in health insurance of -$17,023 in fiscal 2018.

- The fiscal 2019 allowance decreases by $21,000, or -1.1%, below the working appropriation, including a 2% general salary increase effective January 1, 2019.

Personnel Data

	FY 17 Actual	FY 18 Working	FY 19 Allowance	FY 18-19 Change
Regular Positions	13.00	13.00	13.00	0.00
Contractual FTEs	0.00	0.00	0.00	0.00
Total Personnel	**13.00**	**13.00**	**13.00**	**0.00**

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	0.31	2.36%
Positions and Percentage Vacant as of 12/31/17	1.00	7.69%

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

For further information contact: Laura M. Vykol Phone: (410) 946-5530

- This agency's staffing configuration for fiscal 2019 remains unchanged.

- As of December 31, 2017, the Maryland Supplemental Retirement Plans (MSRP) had 1 vacancy and a turnover rate of 7.7%, due to the small size of the agency.

Analysis in Brief

Major Trends

Plan Membership Continues to Grow: Total participation in the retirement savings plans offered by MSRP declined gradually from a high of 61,362 members in fiscal 2008 to a low of 57,477 members in fiscal 2013, most likely due to the contraction of the State workforce. Since fiscal 2013, plan membership has increased by 2,155 members to 59,632 members in fiscal 2017, or an annual rate of 1%. The percentage of employees enrolled in MSRP has grown from 74% in fiscal 2013 to 77% in fiscal 2017; however, the proportion of employees who actively defer compensation to their supplemental plans has remained at 44%.

Investment Returns Remain Close to Plan Benchmarks: Over the past six fiscal years, MSRP investment returns have remained very close to benchmark indices. In fiscal 2017, MSRP options exceeded plan benchmarks.

Issues

Executive Branch Staffing Adequacy Study: Over the course of the 2016 and 2017 interims, the Department of Legislative Services conducted an analysis of the adequacy of staffing levels in the Executive Branch of Maryland. According to the staffing analysis, MSRP is able to perform all of its duties effectively with the current staffing complement, and performance has not suffered due to understaffing. However, four or five employees will be eligible to retire soon, and those positions will need to be filled. If all the eligible employees retired at the same time, it would likely have an impact on the agency's ability to perform. **MSRP should discuss redundancy and plans to maintain the performance of the agency during the impending retirements.**

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

Updates

Board Asset Fee Holiday Announced for Calendar 2018: In recent years, a run up in financial markets and a windfall payment from a legal settlement agreement caused MSRP revenues to increase at a much faster pace than its expenditures. This created substantial fund balances well in excess of the board's target of 25% of operating expenses. The board responded with fee holidays from calendar 2013 to 2016. In calendar 2017, the reserve was less than the 25% target so the board made no changes to the rate or application of the asset fee. A six-month board asset fee holiday has been announced in calendar 2018 as a result of fund balance exceeding the 25%.

Operating Budget Analysis

Program Description

Title 35 of the State Personnel and Pensions Article established the Teachers' and State Employees' Supplemental Retirement Plans and a board of trustees to administer them. The board of trustees has the responsibility of administering the State's:

- Deferred Compensation Program pursuant to Internal Revenue Code (IRC) Section 457;
- Tax-deferred Annuity Program for Educational Employees under IRC Section 403(b);
- Savings and Investment Program under IRC Section 401(k); and
- Employer Matching Plan under IRC Section 401(a).

The Maryland Supplemental Retirement Plans (MSRP) staff provides educational programs and support information to State employees and human resources personnel in State agencies. These efforts are designed to create awareness among State employees of the need and mechanisms available to save for their own retirement. Staff also supports the board's work in selecting investment options and overseeing the operation.

MSRP finances operations through a fee imposed on members' accounts based on a percentage of assets in the plans and a flat-rate monthly charge. For fiscal 2018, the board fee is composed of two parts: a fee of 0.05% of assets and a monthly per account charge of $0.50 on every account with at least $500 in the 401(k), 457(b), and 403(b) plans. There is no $0.50 charge on 401(a) match plan accounts. In addition, the board contracts with Nationwide Retirement Solutions, Inc. (Nationwide) for administration of all four plans. The Nationwide contract, renewed for a year through January 1, 2019, provides for a management fee of 0.09% of assets. The reported total participant fee includes the $0.50 charge on specified accounts plus up to 0.14% of assets on an annual basis.

Performance Analysis: Managing for Results

1. Plan Membership Continues to Grow

As shown in **Exhibit 1**, total participation in the retirement savings plans offered by MSRP declined from a high of 61,362 members in fiscal 2008 to a low of 57,477 members in fiscal 2013, or a 6.3% decrease. This decline most likely reflected a contraction in the size of the State workforce, as demonstrated by the fact that the percentage of employees participating in MSRP remained fairly constant. Since fiscal 2013, plan membership has grown by 2,155 members to 59,632 in fiscal 2017, or an annual rate of 1.0%. The percentage of employees enrolled in MSRP has grown from 74.0% to 77.0% during this time period. The outreach and education efforts of MSRP, particularly for recent hires, is most likely the primary driver of plan membership growth.

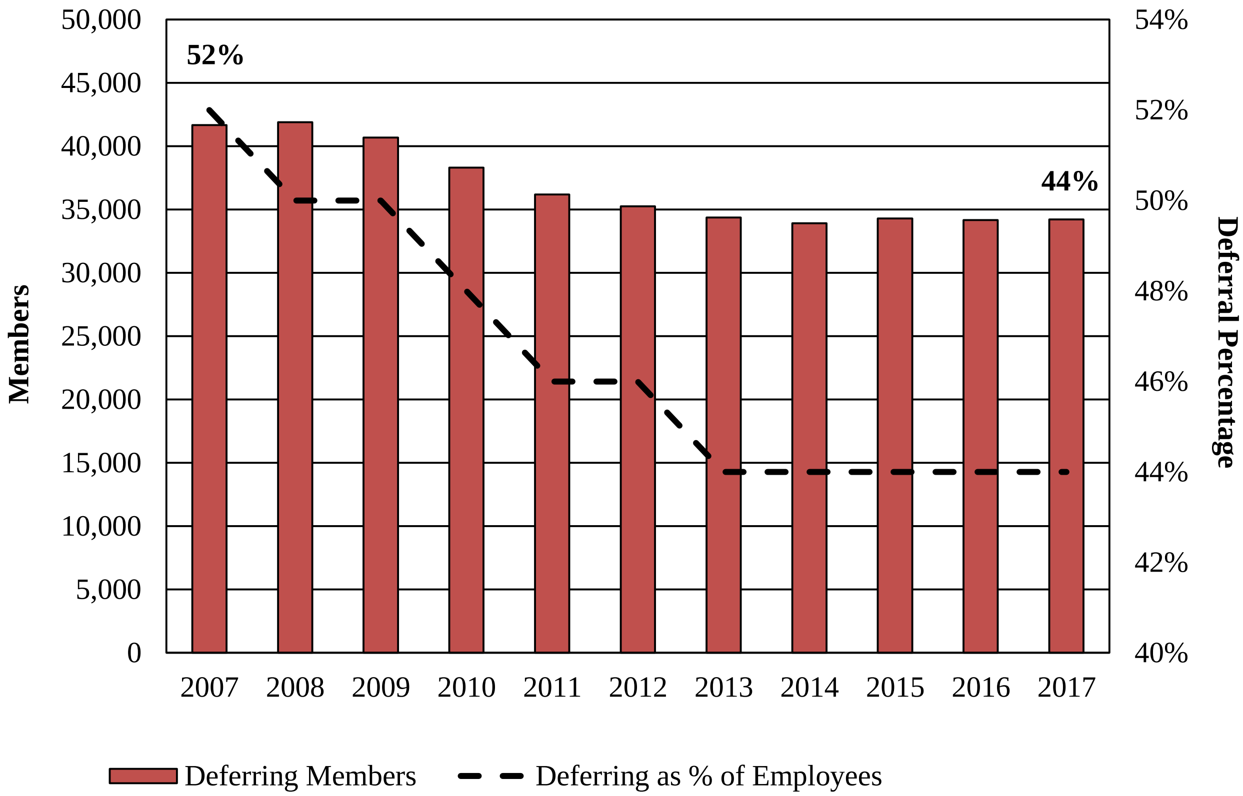
Exhibit 1
Maryland Supplemental Retirement Plan Participation
Fiscal 2007-2017

Fiscal Year	Members	% Change	% of Employees
2007	60,477	n/a	75%
2008	61,362	1.5%	73%
2009	61,202	-0.3%	75%
2010	60,188	-1.7%	75%
2011	58,993	-2.0%	75%
2012	58,121	-1.5%	76%
2013	57,477	-1.1%	74%
2014	57,486	0.0%	74%
2015	58,311	1.4%	74%
2016	59,144	1.4%	76%
2017	59,632	0.8%	77%

Source: Maryland Supplemental Retirement Plans

Although the percentage of employees participating in MSRP has remained fairly constant, the percentage of employees who actively defer compensation to their supplemental retirement plans has dropped since fiscal 2008, as shown in **Exhibit 2**.

Exhibit 2
Maryland Supplemental Retirement Plans' Members Making Deferrals
Fiscal 2007-2017



Source: Maryland Supplemental Retirement Plans

The percentage of employees who actively defer compensation dropped from 52% in fiscal 2007 to 44% in fiscal 2013. The percentage of actively deferring employees has remained at 44% through fiscal 2017, despite plan membership increasing incrementally. The decrease in actively deferring members coincided with the elimination of the State matching contribution up to $600 and an economic recession. Many factors can influence active deferral rates, including market volatility, media coverage, or individual circumstances, as well as the elimination of financial incentives and matching contributions.

2. Investment Returns Remain Close to Plan Benchmarks

As shown in **Exhibit 3**, MSRP options exceeded all annual average rates of return benchmarks in fiscal 2017. In the past six fiscal years, MSRP options have generally met or outperformed plan benchmarks. MSRP options experienced negative one-year return rates in fiscal 2012 and 2016.

Exhibit 3
Maryland Supplemental Retirement Plans Average Rates of Return
Fiscal 2012-2017

	1 Year	3 Years	5 Years	10 Years
Annual Average Rates of Return as of June 30, 2017				
Maryland Supplemental Retirement Plans (MSRP) Options	14.5%	6.0%	10.4%	6.2%
Benchmark Indices	14.1%	5.9%	10.2%	5.7%
Annual Average Rates of Return as of June 30, 2016				
MSRP Options	-0.3%	7.6%	7.5%	6.4%
Benchmark Indices	0.5%	7.6%	7.6%	6.1%
Annual Average Rates of Return as of June 30, 2015				
MSRP Options	3.6%	13.0%	12.6%	7.6%
Benchmark Indices	3.8%	12.7%	12.6%	7.0%
Annual Average Rates of Return as of June 30, 2014				
MSRP Options	20.6%	11.8%	15.3%	8.2%
Benchmark Indices	19.8%	11.9%	15.2%	7.6%
Annual Average Rates of Return as of June 30, 2013				
MSRP Options	16.5%	13.8%	6.5%	8.3%
Benchmark Indices	16.3%	14.0%	6.1%	7.7%
Annual Average Rates of Return as of June 30, 2012				
MSRP Options	-0.7%	13.4%	1.5%	7.1%
Benchmark Indices	0.6%	13.2%	0.9%	6.0%

Source: Maryland Supplemental Retirement Plans

Underperformance of a mutual fund in the near term may put a fund "on watch" but does not necessarily result in a fund being replaced, given that the retirement board's emphasis is more on long-term performance. **Exhibit 4** compares MSRP investment performance with benchmark indices as of September 2017.

Exhibit 4
MSRP Investment Performance Compared with Benchmark Indices
As of September 2017

	1-year	3-year	5-year	10-year
Bond Funds				
TCW Core Fixed Income Fund I	×	×	×	✓
Balanced Funds				
Fidelity Puritan Fund	✓	✓	✓	✓
T. Rowe Price Retirement Balanced	✓	×	×	✓
Large Cap Stock Funds				
Parnassus Core Equity	×	×	×	✓
American Century Equity Growth	×	×	×	×
American Funds Growth	×	×	✓	-
Delaware Value Fund Institutional Class	×	×	✓	✓
Mid Cap Stock Funds				
Janus Enterprise N	✓	✓	✓	-
T. Rowe Price Mid-cap Value	✓	✓	×	✓
Small Cap Stock Fund				
T. Rowe Price Small Cap Stock	×	×	✓	✓
International Stock Fund				
American Funds Euro Pacific Growth	✓	✓	✓	-

✓ Fund Equaled or Beat Benchmark Index × Fund Underperformed Benchmark Index
\- No Reported Performance for That Duration

MSRP: Maryland Supplemental Retirement Plans

Source: Maryland Supplemental Retirement Plans; Segal Advisors

Fiscal 2018 Actions

Across-the-board Employee and Retiree Health Insurance Reduction

The budget bill includes an across-the-board reduction for employee and retiree health insurance in fiscal 2018 to reflect a surplus balance in the fund. This agency's share of this reduction is -$17,023 in special funds.

Deficiency

The fiscal 2018 appropriation for MSRP increases by $57,300, as a result of a special fund deficiency for agency operations.

Proposed Budget

As shown in **Exhibit 5**, the fiscal 2019 allowance decreases by $21,000, or -1.1%, below the working appropriation, including a 2.0% general salary increase effective January 1, 2019.

Exhibit 5
Proposed Budget
Maryland Supplemental Retirement Plans
($ in Thousands)

How Much It Grows:	Special Fund	Total
Fiscal 2017 Actual	$1,783	$1,783
Fiscal 2018 Working Appropriation	1,810	1,810
Fiscal 2019 Allowance	1,789	1,789
Fiscal 2018-2019 Amount Change	-$21	-$21
Fiscal 2018-2019 Percent Change	-1.1%	-1.1%

Where It Goes:	
Personnel Expenses	
Regular earnings, including 2% general salary increase effective January 1, 2019	$10
Employee and retiree health insurance, including contingent reduction in fiscal 2018	17
Other Changes	
Rent	5
In-state travel	2
Shared human resources costs	2
Equipment replacement and enhancement	1
Elimination of one-time fiscal 2018 deficiency for agency operations	-57
Other	-1
Total	**-$21**

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

Personnel

The fiscal 2019 allowance includes funds for a 2% general salary increase for all State employees, effective January 1, 2019. These funds are budgeted in the Department of Budget and Management's statewide program and will be distributed to agencies during the fiscal year. This agency's share of the general salary increase is $10,337 in special funds. In addition, employees will receive another 0.5% increase and a $500 bonus effective April 1, 2019, if actual fiscal 2018 general fund revenues exceed the December 2017 estimate by $75 million. These funds have not been budgeted. The Administration will need to process a deficiency appropriation if revenues are $75 million more than projected.

Issues

1. Executive Branch Staffing Adequacy Study

Over the course of the 2016 and 2017 interims, the Department of Legislative Services conducted an analysis of the adequacy of staffing levels in the Executive Branch of Maryland. According to the staffing analysis, MSRP is able to perform all of its duties effectively with the current staffing complement, and performance has not suffered due to understaffing. Being a small office, there is a greater impact if an employee is on extended leave or a position is vacant, but the agency appears able to fill vacant positions in a reasonable timeframe and performance has not suffered due to understaffing. However, four or five employees will be eligible to retire soon, and those positions will need to be filled. If all the eligible employees retired at the same time, it would likely have an impact on the agency's ability to perform. **MSRP should discuss redundancy and plans to maintain the performance of the agency during the impending retirements.**

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

Updates

1. Board Asset Fee Holiday Announced for Calendar 2018

In recent years, a run up in financial markets and a windfall payment from a legal settlement agreement caused MSRP revenues to increase at a much faster pace than its expenditures. This created substantial fund balances well in excess of the board's target 25.0% of its operating expenses. The board responded with fee holidays from calendar 2013 to 2016, as shown in **Exhibit 6**. The board has considered lowering the board asset fee from 0.05%, given the repeated fee holidays, but decided to hold the issue in fiscal 2017, given that fiscal 2016 fund balances closed out at 21.1% of operating expenses, not reaching the 25.0% target. In November 2017, plan assets reached $3.8 billion. As a result, the board announced a six-month board asset fee holiday from January 31 to June 30, 2018 (fiscal 2018).

Exhibit 6
Assets and Participants' Fees and MSRP Operating Budget
Fiscal 2011-2018 Est.

	2011	2012	2013	2014	2015	2016	2017	2018 (Est.)[4]
Net Total Assets ($ in Billions)	$2.64	$2.65	$2.93	$3.33	$3.42	$3.38	$3.74	$3.89
Plan Administrator Fees	**$3,319,448**	**$3,388,235**	**$3,046,079**	**$2,726,532**	**$2,941,840**	**$2,807,945**	**$3,102,426**	**$3,274,400**
As Percent of Assets[1]	0.13%	0.13%	0.10%	0.08%	0.09%	0.08%	0.08%	0.08%
Board Asset Fee	**$1,229,892**	**$1,252,401**	**$1,009,786**	**$922,149**	**$1,107,118**	**$1,080,654**	**$1,755,171**	**$996,800**
As Percent of Assets[2]	0.05%	0.05%	0.03%	0.03%	0.03%	0.03%	0.05%	0.03%
$0.50 Monthly Charge Per Account	376,106	368,355	362,996	360,231	359,090	362,942	366,465	368,900
One-time Settlement Revenue	0	0	599,457	0	13,660	0	122,406	0
Adjustment for Timing Differences[3]	-28,820	-1,182	901	-68	131,498	9,939	-17,007	0
Total Board Revenue	**$1,577,178**	**$1,619,574**	**$1,973,140**	**$1,282,312**	**$1,611,366**	**$1,453,535**	**$2,227,035**	**$1,365,700**
Operating Expenses	$1,525,132	$1,482,557	$1,501,897	$1,521,864	$1,666,333	$1,673,956	$1,782,930	$1,769,271
Adjustment for Timing Differences[3]	0	-37,664	2,412	2,212	-13,941	-3,600	142	0
Total Operating Expenses	**$1,525,132**	**$1,444,893**	**$1,504,309**	**$1,524,076**	**$1,652,392**	**$1,670,356**	**$1,783,072**	**$1,769,271**
Carryover Balance	$207,974	$382,655	$851,486	$609,722	$568,696	$351,875	$795,838	$392,267
Carryover Balance as Percent of Operating Expenses	13.6%	26.5%	56.6%	40.0%	34.4%	21.1%	44.6%	22.2%

[1] In fiscal 2013, the management fee is 0.14% for the first six months of the fiscal year under a former contract, then 0.09% for the final six months under a new contract that took effect January 1, 2013.
[2] The board asset percentage is less than 0.05% from fiscal 2013 to 2016, as a result of fee holidays.
[3] Timing adjustment is needed to align with Financial Management Information System accounting. Expenditures are budgeted on a fiscal year while plans and revenues are on calendar years.
[4] Fiscal 2018 estimate includes a six-month fee holiday from January 31 to June 30, 2018.

Source: Maryland Supplemental Retirement Plans; Department of Legislative Services

Appendix 1

Current and Prior Year Budgets

Maryland Supplemental Retirement Plans

($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2017					
Legislative Appropriation	$0	$1,769	$0	$0	$1,769
Deficiency Appropriation	0	0	0	0	0
Cost Containment	0	0	0	0	0
Budget Amendments	0	14	0	0	14
Reversions and Cancellations	0	0	0	0	0
Actual Expenditures	**$0**	**$1,783**	**$0**	**$0**	**$1,783**
Fiscal 2018					
Legislative Appropriation	$0	$1,769	$0	$0	$1,769
Cost Containment	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Working Appropriation	**$0**	**$1,769**	**$0**	**$0**	**$1,769**

Note: The fiscal 2018 appropriation does not include deficiencies, targeted reversions, or across-the-board reductions. Numbers may not sum to total due to rounding.

Fiscal 2017

The budget for the Maryland Supplemental Retirement Plans (MSRP) increased by $14,000 due to a budget amendment allocating employee increments.

Fiscal 2018

The fiscal 2018 working appropriation for MSRP remains unchanged from the legislative appropriation.

Appendix 2
Object/Fund Difference Report
Maryland Supplemental Retirement Plans

Object/Fund	FY 17 Actual	FY 18 Working Appropriation	FY 19 Allowance	FY 18 - FY 19 Amount Change	Percent Change
Positions					
01 Regular	13.00	13.00	13.00	0.00	0%
Total Positions	**13.00**	**13.00**	**13.00**	**0.00**	**0%**
Objects					
01 Salaries and Wages	$ 1,247,588	$ 1,231,429	$ 1,231,295	-$ 134	0%
02 Technical and Spec. Fees	0	3,850	3,850	0	0%
03 Communication	25,408	25,233	24,857	-376	-1.5%
04 Travel	22,457	25,074	27,074	2,000	8.0%
07 Motor Vehicles	10,912	11,760	11,760	0	0%
08 Contractual Services	321,998	300,768	301,854	1,086	0.4%
09 Supplies and Materials	6,437	15,408	15,407	-1	0%
10 Equipment – Replacement	3,975	4,909	5,909	1,000	20.4%
11 Equipment – Additional	3,701	5,976	6,976	1,000	16.7%
13 Fixed Charges	140,454	144,864	149,474	4,610	3.2%
Total Objects	**$ 1,782,930**	**$ 1,769,271**	**$ 1,778,456**	**$ 9,185**	**0.5%**
Funds					
03 Special Fund	$ 1,782,930	$ 1,769,271	$ 1,778,456	$ 9,185	0.5%
Total Funds	**$ 1,782,930**	**$ 1,769,271**	**$ 1,778,456**	**$ 9,185**	**0.5%**

Note: The fiscal 2018 appropriation does not include deficiencies, targeted reversions, or across-the-board reductions. The fiscal 2019 allowance does not include contingent reductions or cost-of-living adjustments. Numbers may not sum to total due to rounding.