

Department of Legislative Services
Maryland General Assembly
2004 Session

FISCAL AND POLICY NOTE
Revised

House Bill 892

(Delegate James)
(Chairman, Joint Committee on Pensions)

Appropriations

Budget and Taxation

State Retirement and Pension System - Administrative and Operational Expenses
- Allocation of Cost

This pension bill specifies that the administrative and operational expenses of the board of trustees and the State Retirement Agency (SRA) must be allocated to the various retirement and pension systems of the State Retirement and Pension System on a pro rata basis according to the total membership of each system.

The bill is effective July 1, 2004.

Fiscal Summary

State Effect: Potential increase in actuarial funding levels of systems whose administrative cost allocation decreases, potentially resulting in reduced State pension costs. Potential decrease in actuarial funding levels of systems whose administrative cost allocation increases, potentially resulting in increased State pension costs. Total pension liabilities would not be affected.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: State law requires the board to estimate an amount for administrative and operational expenses and investment management costs for each subsystem. These investment and administrative expenses must be paid into the expense funds of each

system during the ensuing year on a pro rata basis according to the total assets held by each system, not on the number of members. State law permits the board to combine the expense funds of all the systems for budgetary and administrative efficiency, which the board does, making allocation of the expenses essentially a bookkeeping exercise.

Background: The various systems to which the administrative and investment expenses are allocated are: the Employees’ Retirement System (ERS), Employees’ Pension System (EPS), Teachers’ Retirement System (TRS), Teachers’ Pension System (TPS), State Police Retirement System (SPRS), Law Enforcement Officers Pension System (LEOPS), Local Fire and Police Retirement System (LFPS), and Judges Retirement System (JRS).

SRA summarizes the total expenses incurred for each month at the end of the month and allocates a pro rata share of investment and administrative expenses to each of the systems based on the month-end market value of assets. SRA has developed an internal accounting system to track the month-end value of each system’s share of assets. The resulting ratio is then applied on a monthly basis to the total expenses, investment and administrative, incurred during that month.

Exhibit 1 also shows that the variance between assets and members is substantial. In those systems that have a larger percentage of assets than of members (TRS/TPS, SPRS, JRS), allocated administrative costs would decrease based on the provisions of this bill. Conversely, for those systems that have a higher percentage of members than of assets (ERS/EPS, LEOPS, LFPS), allocated administrative costs would increase under the provisions of this bill.

Exhibit 1
Asset Allocation v. Membership of System
Fiscal 1996 – 2003

	<u>TRS/TPS</u>	<u>ERS/EPS</u>	<u>SPRS</u>	<u>LEOPS</u>	<u>JRS</u>	<u>LFPS</u>
% Ownership of Assets	60.9%	34.7%	4.19%	0.4%	0.7%	0.0%
% Membership	47.9%	50.4%	1.0%	0.4%	0.2%	0.1%

Source: State Retirement Agency

State Fiscal Effect: **Exhibit 2** shows the effect of the provisions of this bill on the allocation of fiscal 2003 administrative expenses. To the extent that this pattern holds, TRS/TPS and SPRS would recognize the most significant increased actuarial funding

levels. The TRS/TPS reduction in costs is approximately 0.6% of annual employer contributions. The ERS/EPS increase in administrative costs is approximately 2.3% of employer contributions. As part of the proposed change, the agency advises that it intends to treat investment consultant expenses as budgeted investment expenses, rather than administrative expenses, as they are currently treated.

Exhibit 2
Allocation – Current Law and HB 892
Fiscal 2003
(\$ in thousands)

	<u>TRS/TPS</u>	<u>ERS/EPS</u>	<u>SPRS</u>	<u>LEOPS</u>	<u>JRS</u>	<u>LFPS</u>
Current Allocation Methodology						
Investment Expenses	\$25,305	\$14,403	\$1,563	\$255	\$294	\$11
Administrative Expenses	12,917	7,353	798	129	149	6
Total Expenses Allocated By System	38,222	21,756	2,361	384	443	17
Allocation under HB 892						
Investment Expenses	26,069	14,844	1,611	262	302	11
Administrative Expenses	9,551	9,887	202	125	37	12
Total Expenses Allocated By System	35,620	24,731	1,813	387	339	23
Increase/(Decrease) in Admin. Costs	(\$2,602)	\$2,975	(\$548)	\$3	(\$104)	\$6

Source: State Retirement Agency, Department of Legislative Services

To the extent that the effects of a revised cost allocation methodology mirror the fiscal 2003 model, the actuarial funding level of TRS/TPS, SPRS, and JRS could increase minimally. The effect in the teachers' systems would be less than one-tenth of 1%. A similar reduction in the actuarial funding level of ERS/EPS could occur. LEOPS and LFPS would not be materially affected. This bill would not materially affect the SPRS employer contribution rate, because the SPRS employer contribution rate is currently 0.0%.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Milliman USA, Maryland State Retirement Agency,
Department of Legislative Services

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