

Department of Legislative Services
 Maryland General Assembly
 2010 Session

FISCAL AND POLICY NOTE

House Bill 1543 (Delegate Serafini)
 Appropriations

State Retirement and Health Benefits Reporting Transparency Act

This bill requires the Board of Trustees of the State Retirement and Pension System (SRPS) to prepare and disseminate electronically a quarterly report depicting the fund balances, market value of assets, and investment returns of the several systems as specified by the bill. It also requires the board to prepare and disseminate electronically a quarterly report that provides the actuarial liability associated with State retiree health benefits as of June 30 of the previous fiscal year. In either case, the cost of preparing and disseminating the reports cannot exceed \$2,500 annually.

The bill takes effect July 1, 2010.

Fiscal Summary

State Effect: General fund expenditures by the Department of Budget and Management (DBM) increase by \$159,000 annually beginning in FY 2011 to conduct quarterly actuarial valuations of the State’s retiree health liabilities. The Maryland State Retirement Agency (SRA) can carry out the bill’s other reporting requirements with existing budgeted resources. No effect on revenues.

(in dollars)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	159,000	159,000	159,000	159,000	159,000
Net Effect	(\$159,000)	(\$159,000)	(\$159,000)	(\$159,000)	(\$159,000)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: Beginning September 30, 2010, SRPS must provide the quarterly investment report and retiree health liability report to the Governor, members of the General Assembly, and major media organizations in the State within 14 days of their preparation. The investment report must include the:

- total fund balance of the several systems;
- overall investment returns for the past 3, 6, and 9 months compared with industry-standard benchmarks;
- investment returns by asset class at the same intervals and compared against benchmarks;
- 1-, 3-, 5-, and 10-year annualized investment returns, both overall and by asset class, compared against benchmarks;
- the market value of assets in relation to June 30 of the previous fiscal year.

Current Law: The SRPS Board of Trustees is required to publish an annual consolidated financial report that includes:

- the fiscal transactions of the several systems for the preceding fiscal year;
- the amount of the accumulated cash, securities, and other assets of each State system; and
- the last balance sheet that shows the financial condition of each State system by means of an actuarial valuation of the assets and liabilities of the State system.

Chapter 433 of 2006 established the Blue Ribbon Commission to Study Retiree Health Care Funding Options. It also authorized the commission to hire an actuarial consultant to conduct an annual valuation of the State's retiree health care liabilities and to provide ongoing assistance to the commission throughout its existence.

Background: An actuarial and health benefits consulting firm has been advising the Blue Ribbon Commission since its inception and has conducted an annual actuarial valuation since 2007. The last valuation, conducted as of June 30, 2009, concluded that the State's unfunded liability for retiree health benefits was as high as \$15.2 billion. DBM provides funding for the retention of the actuarial consultant, which reports to DBM and the commission.

Accounting standards issued by the Government Accounting Standards Board's (GASB) Statement 45 in 2004 require governmental employers to account for liabilities associated with the employers' commitment to what is referred to as Other Post Employment Benefits (OPEB) such as retiree health insurance. Under these standards, Maryland was required to account for these OPEB liabilities on its balance sheet at the conclusion of fiscal 2008. Statement 45 also requires Maryland to conduct an actuarial valuation of its OPEB liabilities at least every two years; as a matter of practice, the State has been conducting annual valuations. If the State carries large unfunded OPEB liabilities on its balance sheet, bond rating agencies could downgrade the State's bond rating from its long-held AAA status, costing the State millions of dollars in interest payments on its general obligation bonds.

SRA posts quarterly investment updates on its web site that contain most, but not all, of the information required by this bill. The updates provide the market value of SRPS assets by asset class, annualized investment returns at 1-, 3-, 5-, and 10-year intervals, and annual investment returns for each of the previous 10 fiscal years. The updates do not measure the system's investment returns against benchmarks, and do not provide three-, six-, and nine-month returns. SRA's investment division also receives monthly audited investment performance reports from State Street Bank, its custodial bank. The State Street reports do measure performance against industry-accepted benchmarks.

State Fiscal Effect: The SRPS Board of Trustees is not responsible for the State's retiree health benefits program; which is administered by DBM. Retiree health liabilities are not currently calculated on a quarterly basis, therefore necessitating quarterly actuarial valuations of the State's retiree health liability by the commission's actuary at an approximate cost of \$53,000 each quarter. As DBM pays for the commission's consulting actuary, general fund expenditures by DBM increase by \$159,000 annually beginning in fiscal 2011. This accounts for the fact that the actuary already conducts one valuation each year. This exceeds the \$2,500 cap in the bill, but nonetheless reflects the estimated fiscal impact of the reporting requirement in the bill.

As noted above, much of the information required for the SRPS board's quarterly reports is already available either on the SRA web site or from its monthly State Street reports. Carrying out the bill's requirements, therefore, involves modest changes to the format of its quarterly updates and generating an electronic mailing list of General Assembly members and news organizations with whom to share the quarterly report. DLS believes that the board can carry out those tasks with existing budgeted resources.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Budget and Management, Mercer Human Resources Consulting, Maryland State Retirement Agency, Department of Legislative Services

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