

Department of Legislative Services
 Maryland General Assembly
 2015 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 640

(Senator Serafini, *et al.*)

Budget and Taxation

Appropriations

State Retirement and Pension System - Actuarial Stress Tests

This bill requires the General Assembly’s consulting actuary to conduct stress tests of the several systems of the State Retirement and Pension System (SRPS). The consulting actuarial firm must report its findings to specified committees of the General Assembly by December 31, 2015.

The bill takes effect July 1, 2015, and terminates June 30, 2016.

Fiscal Summary

State Effect: General fund expenditures by the Department of Legislative Services (DLS) increase by up to \$25,000 in FY 2016 to have the consulting actuary conduct the required stress tests. No effect on revenues.

(in dollars)	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Revenues	\$0	\$0	\$0	\$0	\$0
GF Expenditure	25,000	0	0	0	0
Net Effect	(\$25,000)	\$0	\$0	\$0	\$0

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

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: The General Assembly’s consulting actuary must conduct stress tests of future financial positions of the several systems to measure investment and contribution

risks. The stress tests must use 30-year financial projections and use the following assumptions:

- investment returns at the assumed rate of return selected by the SRPS Board of Trustees;
- investment returns at three percentage points more and less than the board's assumed rate of return; and
- employer contributions at the rate of 80% of the recommended actuarially determined contribution each year.

Current Law: SRPS consists of the following major retirement and pension plans:

- Teachers' Retirement System and Teachers' Pension System (TRS/TPS);
- Employees' Retirement System and Employees' Pension System (ERS/EPS);
- State Police Retirement System;
- Correctional Officers' Retirement System (CORS);
- Law Enforcement Officers' Pension System;
- Judges' Retirement System; and the
- Legislative Pension Plan (LPP).

For accounting and funding purposes, each system is accounted for separately, except that TRS/TPS are treated as one plan, and ERS/EPS, CORS, and LPP are all treated as one plan.

The SRPS board must designate an actuary to give technical advice on the operation of the funds of the several systems and perform other duties as specified by the board. On the basis of actuarial assumptions selected by the board, the actuary must conduct an annual valuation of the assets and liabilities of the several systems, and recommend employer contribution rates necessary to maintain sufficient funding in the plan to pay future benefits. In addition, the actuary must conduct an "experience study" at least every five years to assess the appropriateness of the assumptions made by the board.

Background: The board selects an actuarial consulting firm to serve as its actuary through a competitive procurement process. The current actuary is Gabriel, Roeder, Smith & Company. DLS retains an actuarial consulting firm to analyze the fiscal effect of proposed pension legislation and conduct other analyses as requested. Cheiron is currently the General Assembly's consulting actuary.

Among the key economic assumptions selected by the board for use in the actuarial valuations are:

- investment return: 7.65% (being phased down to 7.55% in two years);
- payroll growth: 3.40% (being phased down to 3.30% in two years); and
- inflation: 2.90% (being phased down to 2.80% in two years).

In April 2013, the Society of Actuaries commissioned a Blue Ribbon Panel on Public Pension Plan Funding to address the question: “What changes in plan funding practices, governance, and other matters help ensure that public plans can deliver on the benefit promises their sponsors have made to public employees?” Among the panel’s many recommendations in its 2014 report, it suggested that stress tests of future financial positions be disclosed in an effort to measure investment and contribution risks. The assumptions required by the bill are drawn directly from the panel’s recommendation. As the panel’s report was just issued in 2014, SRPS has not conducted the recommended stress tests.

State Fiscal Effect: The General Assembly’s consulting actuary estimates the cost of conducting stress tests to be \$25,000. To the extent that efficiencies can be realized by using data already provided by the system’s actuary, the cost may be less.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Cheiron, Society of Actuaries, Department of Legislative Services

Fiscal Note History: First Reader - March 2, 2015
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