SB 270

Department of Legislative Services

Maryland General Assembly
2025 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 270 (Senator M. Jackson)(By Request - State Treasurer)
Budget and Taxation Appropriations

Board of Trustees of the Maryland Teachers and State Employees Supplemental Retirement Plans - Automatic Enrollment

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This bill requires the Board of Trustees of the Maryland Teachers and State Employees Supplemental Retirement Plans (MSRP) to automatically enroll all eligible State employees hired (or reinstated) on or after January 1, 2026, in a supplemental retirement plan. Employees may opt out of automatic enrollment within 90 days of the first automatic deduction of the employee's contribution from wages.

Fiscal Summary

State Effect: To the extent the bill results in more State employees contributing to supplemental retirement plans, State expenditures (all funds) increase to match employee contributions, up to $600 per employee, potentially by as much as $1.0 million annually for each new cohort of employees, as discussed below. Similarly, special fund revenues increase commensurately from account management fees. Any such increase in expenditures and revenues cannot be reliably estimated because it is not known how many employees will opt out of a plan or how much participating employees will elect to contribute to a plan. MSRP can implement the bill with existing resources.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: Except for an employee who opts out of automatic enrollment, an eligible employer must deduct an amount (up to $25) established by the board from the employee's wages for a contribution to a supplemental retirement plan. An employee can elect to (1) have a different amount deducted than the amount established by the board; (2) remain enrolled in a plan but cease making contributions to the plan; or (3) withdraw from the plan. Employee contributions to a plan must be invested in a default investment option.

The board must provide a notice to each employee who is automatically enrolled in a plan that includes specified information, including the employee's right to receive a refund of their account contributions as soon as practicable after discontinuing participation within 90 days of the first automatic deduction of the employee's contribution from wages. Employees who are automatically enrolled in a plan must be offered virtual or in-person counseling to discuss the plan and their option to discontinue participation.

Each State agency that hires an eligible employee who is not already enrolled in a supplemental retirement plan must provide the board with the information necessary to complete the automatic enrollment process. However, the University System of Maryland, Morgan State University, St. Mary's College of Maryland, the Maryland Higher Education Commission, and community colleges may automatically enroll employees into a supplemental retirement plan that the employing institution chooses.

Current Law: MSRP plans are administered by a board of trustees, as established in Title 35 of the State Personnel and Pensions Article. The board has responsibility over four defined contribution plan options: 401(k) and 457(b) plans for State employees; 403(b) plans for employees of State educational institutions; and a 401(a) State matching plan.

Enrollment in an MSRP supplemental plan is currently voluntary for State employees (by contrast, enrollment in the defined benefit plans administered by the State Retirement and Pension System is a condition of employment for virtually all State employees).

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. The board fee is currently composed of a 0.0425% asset fee and a monthly per account charge of $0.50 on every account with at least $500 (except for 401(a) match plan accounts). The board contracts with Nationwide Retirement Solutions, Inc. (Nationwide) for plan administration. The Nationwide contract requires a management fee of 0.0775% of assets. Therefore, the reported total participant fee is 0.12% of plan assets and a $0.50 monthly charge on specified accounts.

All supplemental plans administered by the board have a minimum contribution of $5 per two-week pay period; participating employees may elect to contribute higher amounts. For members of the Employees' Pension System (and specified members of the Employees' Retirement System), Chapter 100 of 2023 requires the State to match employee contributions to an MSRP plan dollar for dollar, up to $600 per fiscal year. Although the fiscal 2026 budget as introduced does not include funding specifically designated for the match, the Administration is instructing agencies to use available personnel funds to provide the match to all eligible employees.

State Fiscal Effect: A recent study by MSRP reports that 38% of eligible State employees actively participate in a supplemental plan administered by MSRP. Assuming that 38% of new hires elect to participate absent the bill, the bill potentially affects up to 62% of new hires. However, many of the new employees who would not elect to participate under current law (*i.e.*, without automatic enrollment) may also elect to opt out when automatic enrollment takes effect. Moreover, the rate at which eligible employees elect to participate in defined contribution plans (like those offered by MSRP) varies by income levels. According to the U.S. Bureau of Labor Statistics, more than 80% of earners in the top decile elect to participate, but fewer than 50% in the lowest decile elect to participate. Therefore, a reliable estimate of the bill's effect on participation in MSRP plans is not feasible.

Based on an analysis of the fiscal effect of automatic enrollment, MSRP estimates there are approximately 3,000 newly eligible employees in each full fiscal year. Assuming 38% of those employees would have elected to participate anyway and 50% of the remaining employees elect to opt out, approximately 930 more employees are enrolled due to the bill. Assuming all of those employees earn the full $600 match each year, State expenditures (all funds) increase by approximately $558,000 annually for *each cohort* of new employees. Given the January 1, 2026 effective date for automatic enrollment, annual expenditures for the first cohort of new employees are about half that amount. Accordingly, under the 50% opt-out scenario, expenditures increase by as much as $279,000 in fiscal 2026 but approximately $2.5 million in fiscal 2030, due to the cumulative impact of additional employees being covered each year.

If, however, the opt-out rate is only 10%, expenditures increase by a greater amount – as much as $1.0 million a year for *each cohort* of new employees (and about half that amount for the first cohort). Accordingly, under the 10% opt-out scenario, expenditures increase by as much as $502,200 in fiscal 2026 and $4.5 million in fiscal 2030, due to the cumulative impact of additional employees being covered each year.

Similarly, special fund revenues for MSRP increase from asset management fees paid by more participants, but a reliable estimate is not feasible for the same reasons described above. Based on one set of assumptions, MSRP estimates the increase could reach approximately $78,000 on an annualized basis. To the extent that employees of higher education institutions enroll in alternative plans administered by their employers, special fund revenues for MSRP are less.

Counseling for new enrollees is already available to supplemental plan enrollees through MSRP or the plan's contracted administrator (Nationwide). Therefore, the bill's requirement that new enrollees be offered counseling has no practical effect on special fund expenditures.

Additional Information

Recent Prior Introductions: Similar legislation has been introduced within the last three years. See SB 322 of 2024 and SB 6 and HB 296 of 2023.

Designated Cross File: None.

Information Source(s): Comptroller's Office; Department of Budget and Management; Maryland Department of Transportation; Maryland Supplemental Retirement Plans; Department of Legislative Services

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Analysis by: Michael C. Rubenstein

Direct Inquiries to:
(410) 946-5510
(301) 970-5510