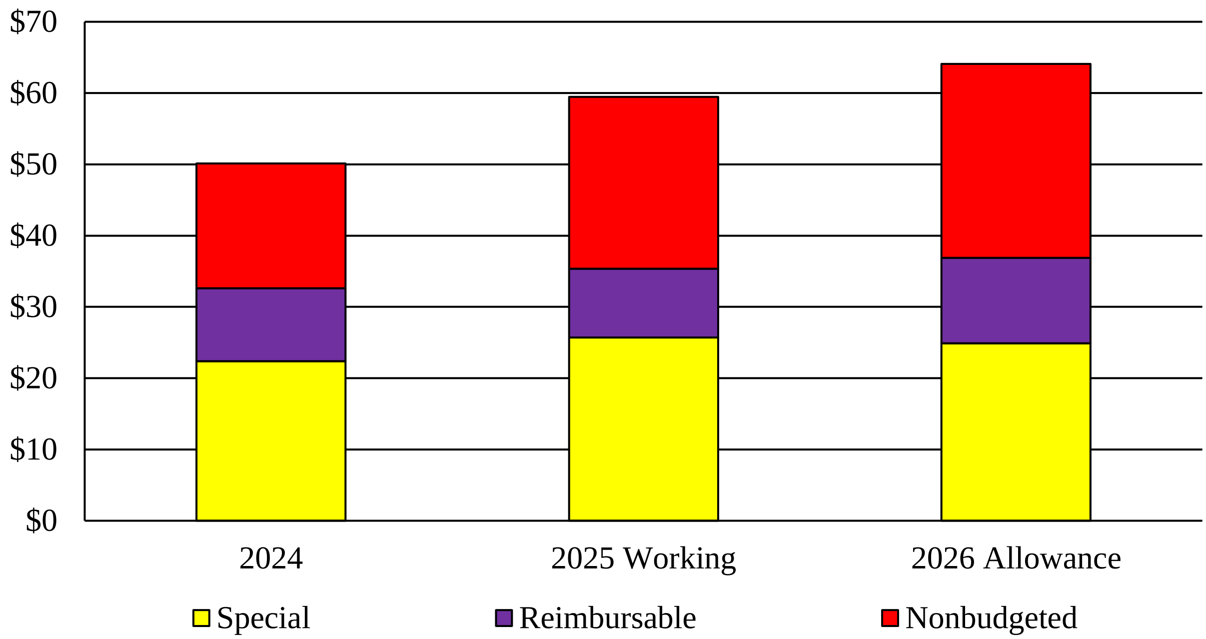
G20J01
State Retirement Agency

Executive Summary

The State Retirement Agency (SRA) under the direction of the Board of Trustees (BOT), is responsible for administering the State Retirement and Pension System (SRPS). SRA is responsible for policy development, legislation, and legal affairs related to the State's retirement systems as well as managing investments, benefit payments, and employer/employee contributions.

Operating Budget Summary

Fiscal 2026 Budget Increases \$4.6 Million, or 7.7%, to \$64.1 Million
(\$ in Millions)



Note: Numbers may not sum due to rounding.

- Reimbursable and special funds supporting SRA operational expenses grow by a combined \$1.5 million, or 4.3%.

- Nonbudgeted funds supporting SRA's Investment Division increase by \$3.1 million, or 12.8%.

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Key Observations

- ***Call Center Delays Remain:*** Call center wait times worsened in calendar 2024 due to high levels of vacancies.

- ***Funding Level Declines:*** The pension system recorded a 72.9% actuarial funding level at the close of fiscal 2024, the second year-over-year decline since the 2011 pension system reforms.

- ***Repeal of Supplemental Contribution Proposed:*** The Budget Reconciliation and Financing Act (BRFA) of 2025 eliminates the $50 million supplemental contribution to the pension system for fiscal 2026 and future years.

- ***Reduction to State Share of Teachers' Retirement Plan Costs:*** The BRFA permanently lowers the amount of mandated State funding for local teacher's retirement by $97.7 million for fiscal 2026 and future years.

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

Operating Budget Analysis

Program Description

SRA under the direction of the 15-member SRPS BOT is responsible for administering the State's retirement and pension systems. The board-appointed executive director is responsible for policy development, legislation, and legal affairs. The agency has identified four fundamental goals for its operation:

- to prudently invest system assets in a well-diversified manner to optimize long-term returns while controlling risk through the excellence in execution of investment objectives and strategies of the system;

- to effectively communicate to all retirement plan participants the benefits provided by the system and to educate them about planning and preparing for all aspects of their defined benefit;

- to pay all retirement allowances provided by State pension law to the system's retirees and their beneficiaries in an accurate and timely manner; and

- to efficiently collect the required employer and employee contributions necessary to fund the system.

The agency is funded with a combination of budgeted and nonbudgeted funds. A per member administrative charge to all employers for whom the agency administers retiree benefits provides budgeted revenue to fund the agency. In proportion to total system membership, administrative charge revenue from State agencies pays for roughly one-third of agency operations (typically represented as reimbursable funds), and revenue from local school boards and participating governmental units pay for the remaining two-thirds (typically represented as special funds). Based on the Governor's allowance, the planned fee holiday, and certified membership of 205,044, participating employers will pay approximately $179.85 per member in fiscal 2026; however, the final per member fee is based on actual expenditures. The agency is subject to a statutory spending cap of 0.22% of the active member payroll, retiree benefits, and compensation of vested former members as codified by Chapters 723 and 724 of 2018. The calculated cap for fiscal 2026 is $50.1 million, which applies only to the special and reimbursable fund portions of the agency's budget.

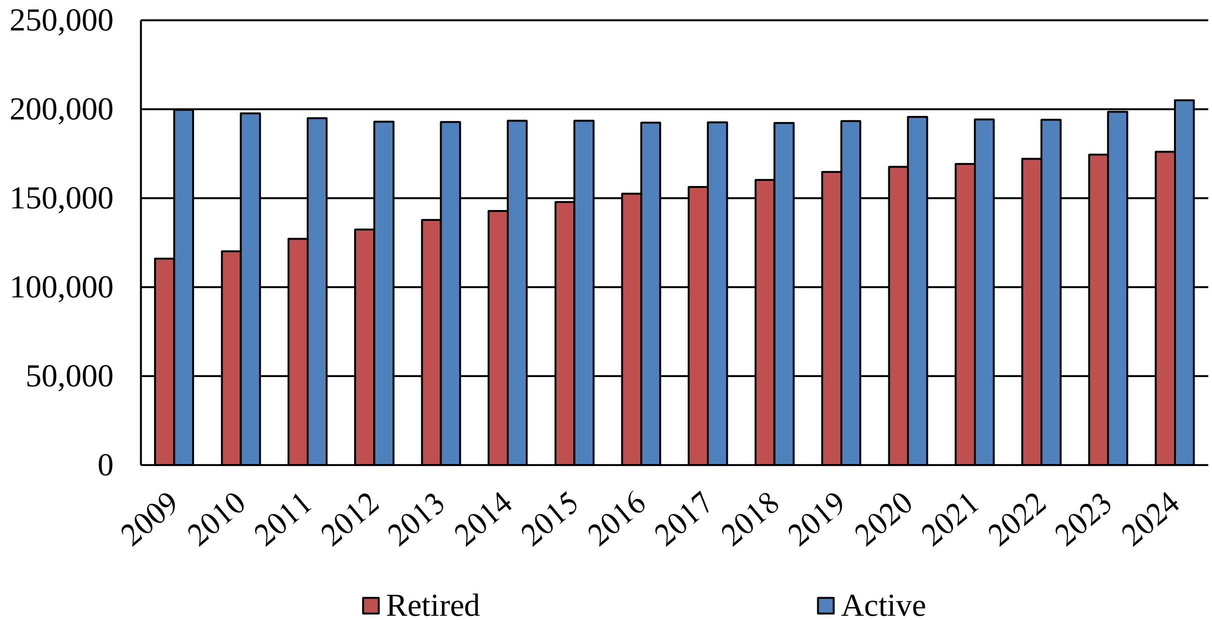
Chapters 727 and 728 of 2018 specified that compensation and other operational expenses for the Investment Division would be paid out of the accumulation funds of the State's retirement systems (the pension trust fund) instead of from special or reimbursable funds collected from the administrative fees. This effectively took the division off budget starting in fiscal 2019 and, as noted, costs associated with the Investment Division do not count against SRA's expense cap.

Performance Analysis: Managing for Results

1. Active Membership

For the second year in a row, the number of active members in SRPS (including local members) increased at a faster rate than the number of retirees. As shown in **Exhibit 1**, active membership grew to 205,044 in fiscal 2024, up by 3.2% over the prior year. The number of retirees also grew in fiscal 2024 to 176,171 members, a 0.9% increase. In fiscal 2024, retirees represented 46.2% of the State's pension plan participation. Growth rates for the number of active members and retirees in State-only plans (not shown) match those for the combined State and local membership.

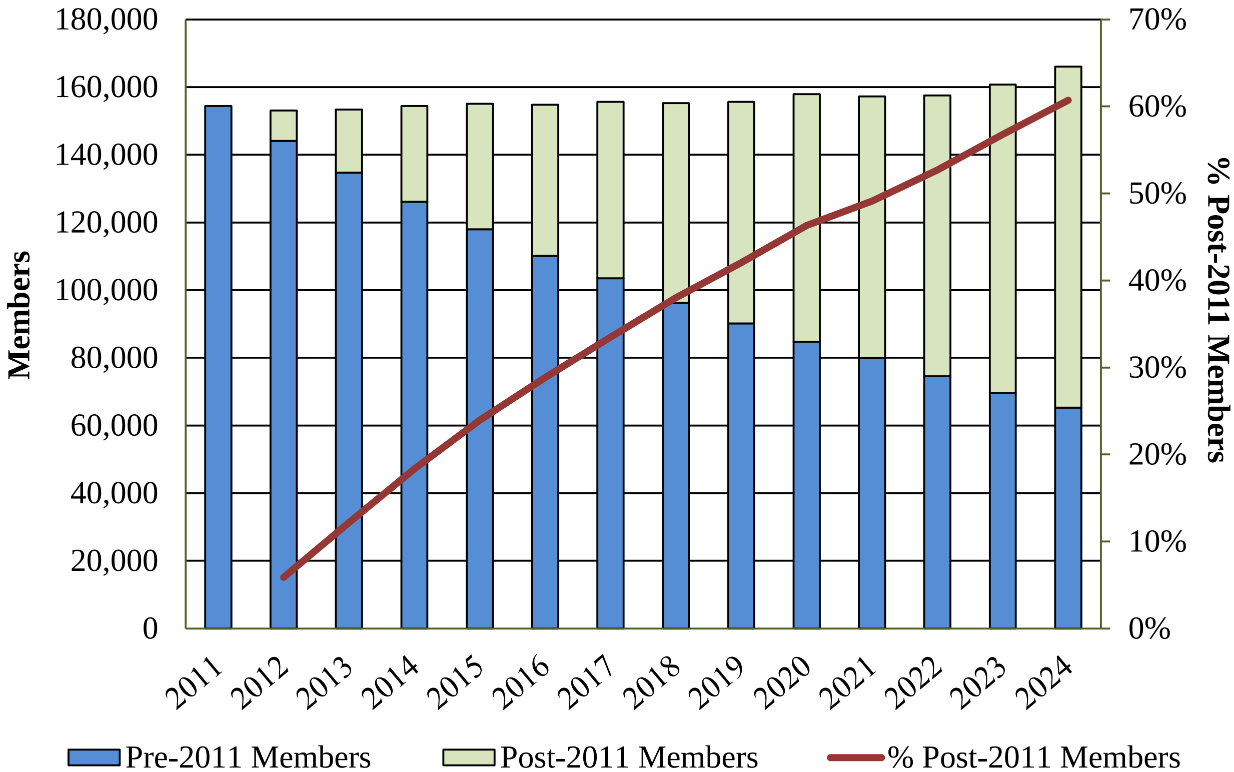
Exhibit 1
State Pension System Membership
Fiscal 2009-2024



Source: State Retirement Agency

Due to employee turnover, 60.7% of members in the Teachers' Pension System (TPS)/Employees' Pension system are in the reformed benefit tier as of fiscal 2023, as shown in **Exhibit 2**. Per Chapter 397 of 2011, all members hired on or after July 1, 2011, are part of the reformed benefit tier, which requires a longer vesting period (10 years instead of 5 years) and provides a less generous benefit calculation. Increasing membership in the reformed pension system restricts the growth of the State's pension liabilities due to fewer employees vesting and less generous benefits for employees who do vest. Employees who leave the State's service without vesting receive their contributions and a guaranteed return on their contributions (5%), but the State's contributions for the employee stay in the system.

Exhibit 2
Pre- and Post-2011 Pension Reform Members
State Employees' and Teachers' Pension Systems
Fiscal 2011-2024



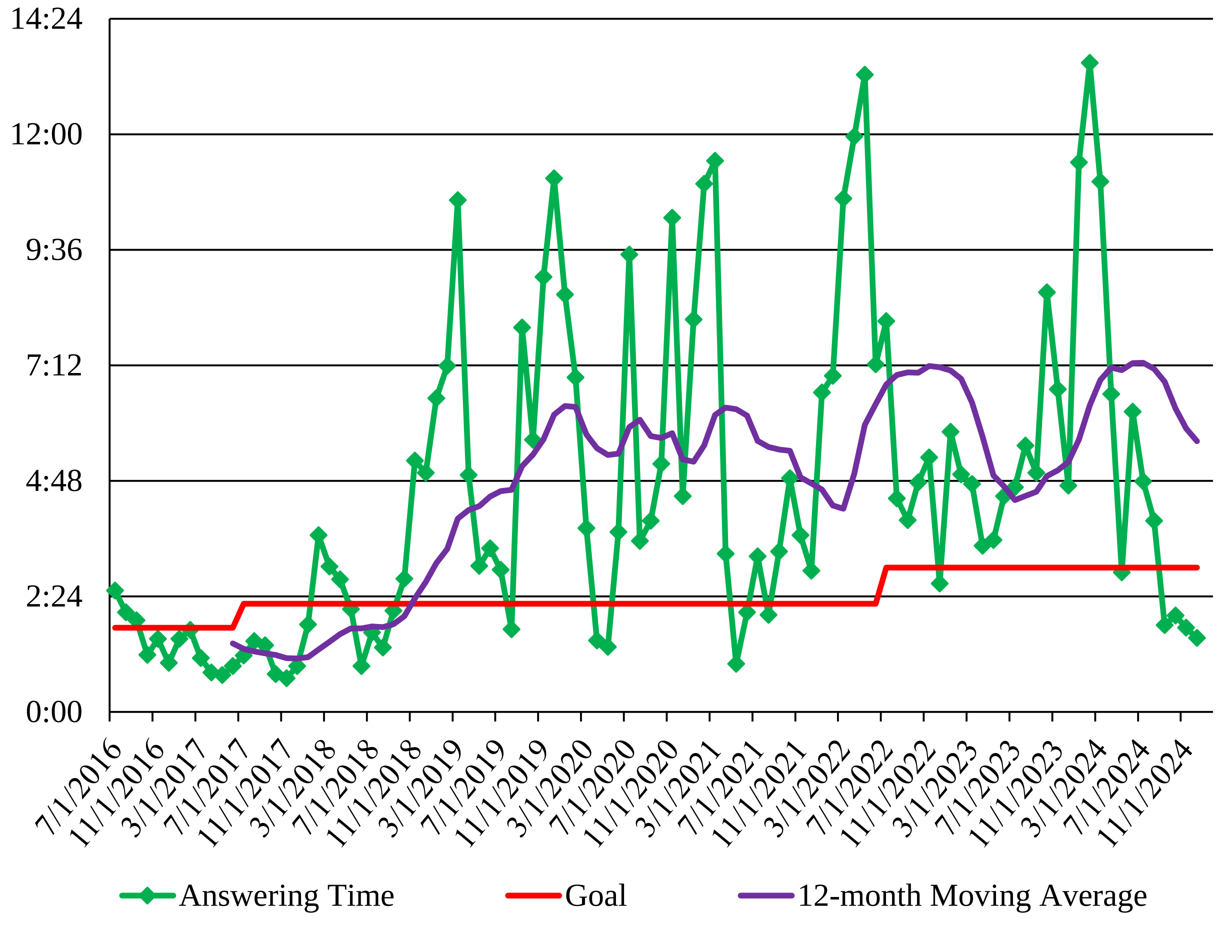
Source: State Retirement Agency

2. Call Center Wait Times

As the administrator of retirement benefits, SRA's performance measures focus on customer service that the agency provides to participants of the State's pension plans. After struggling for several years to meet its goal of callers waiting no more than 1 minute and 45 seconds for a counselor to pick up their call, the agency raised its call center goal to callers waiting no more than 2 minutes and 15 seconds starting in fiscal 2018; the agency goal is now 3 minutes.

As shown in **Exhibit 3**, wait times worsened in calendar 2024 to a monthly average of more than 5 and a half minutes. Wait times were lower compared to the peak of more than 7 minutes on average in calendar 2022. However, the wait times remain longer than the agency's goal. SRA attributes the call center delays primarily to the agency's difficulty in filling vacant positions and slightly above-average call volumes.

Exhibit 3
Monthly Services Call Answering Time
July 2016 to December 2024
(Time in Minutes)

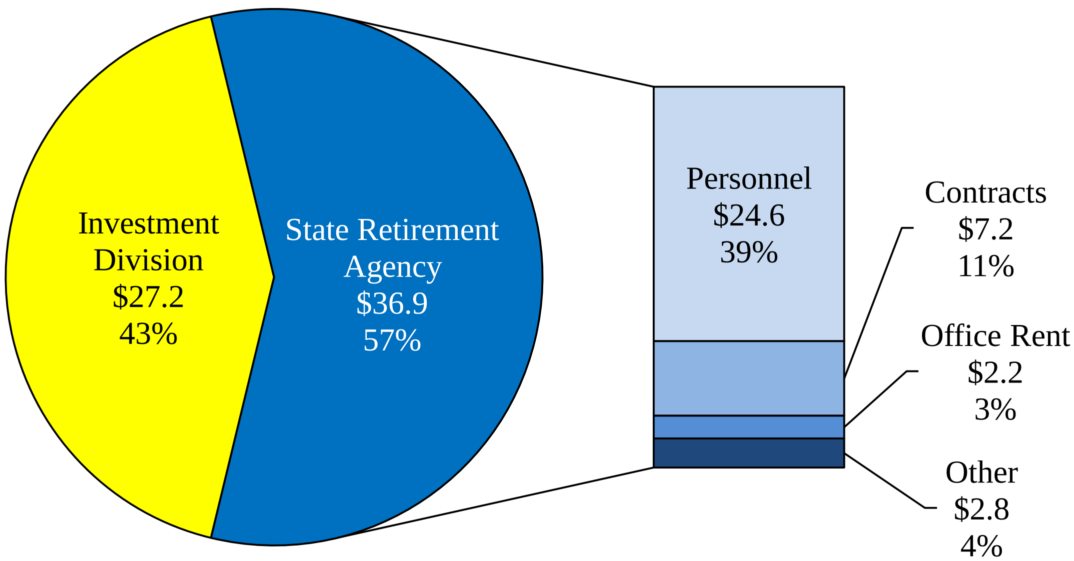


Source: State Retirement Agency

Fiscal 2026 Overview of Agency Spending

The fiscal 2026 allowance totals $64.1 million and is comprised of two components – SRA operations (57%) and the Investment Division (43%), as shown in **Exhibit 4**. Personnel makes up the largest portion of the SRA operations budget.

Exhibit 4
Overview of Agency Spending
Fiscal 2026 Allowance
($ in Millions)



Note: The fiscal 2026 statewide salary adjustments are centrally budgeted in the Department of Budget and Management and are not included in this agency's budget.

Source: Governor's Fiscal 2026 Budget Books

Proposed Budget Change

As shown in **Exhibit 5**, the fiscal 2026 allowance increases by $4.6 million, or 7.7%, compared to the fiscal 2025 working appropriation. Excluding the nonbudgeted Investment Division, the agency's operating budget increases by $1.5 million, or 4.3%. Administrative and information technology expenses are on the decline by approximately $451,000 due mostly to one-time fiscal 2025 spending. Personnel expenses for SRA are on the rise due to regular salary increases and associated fringe benefits as well as 4 contractual conversions and the addition of 4 new positions, which are discussed further in the Personnel section of this analysis.

Exhibit 5
Proposed Budget
State Retirement Agency
($ in Thousands)

How Much It Grows:	**Special Fund**	**Nonbudgeted Fund**	**Reimb. Fund**	**Total**
Fiscal 2024 Actual	$22,374	$17,502	$10,258	$50,134
Fiscal 2025 Working Appropriation	25,715	24,113	9,645	59,474
Fiscal 2026 Allowance	24,878	27,192	12,000	64,071
Fiscal 2025-2026 Amount Change	-$837	$3,079	$2,355	$4,597
Fiscal 2025-2026 Percent Change	-3.3%	12.8%	24.4%	7.7%

Where It Goes:	**Change**
Personnel Expenses	
Salary increases and associated fringe benefits, including fiscal 2025 cost-of-living adjustment and increments	$1,770
4 new positions	501
4 contractual positions converted to regular positions	348
Turnover rate increases from 5.64% to 5.76%	-39
Employee and retiree health insurance	-620
State Retirement Agency Administration and IT Expenses	
Senior level programming services supporting system modernization	884
Other changes	130
Identity proofing contractual services	110
Online portal security enhancements	99
Vehicle and travel expenses	36
Contractual position for 1 business analyst abolished	-47
Postage reduced to align with actual spending	-196
Shared IT services	-204
Shared HR services decrease due to new in-house HR	-204
4 contractual positions converted to regular positions	-236
End of one-time funding for database server replacements	-822

Where It Goes:	**Change**
Investment Division (Nonbudgeted)	
Contractual services	1,930
Salaries, wages, and fringe benefits	994
Fixed charges	156
Total	**$4,597**

IT: information technology
HR: human resources

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

Personnel Data

	FY 24 Actual	FY 25 Working	FY 26 Allowance	FY 25-26 Change
Regular Positions	225.00	232.00	240.00	8.00
Contractual FTEs	11.27	6.00	1.00	-5.00
Total Personnel	**236.27**	**238.00**	**241.00**	**3.00**

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	13.48	5.76%
Positions and Percentage Vacant as of 12/31/24	21.00	8.75%
Vacancies Above Turnover	7.64	

- In the fiscal 2026 allowance, SRA adds 8 regular positions:
  - 4 contractual conversions, including
    - 2 administrative officer II;
    - 1 administrative specialist III;
    - 1 accountant II; and

- 4 new positions, including
  - 1 investment attorney;
  - 1 diversity, equity, and inclusion officer (required by Chapter 495 of 2024);
  - 1 HR director; and
  - 1 HR administrator.
- Contractual positions decrease in the allowance by 5 due to the 4 contractual conversions and the abolishment of 1 business analyst position.
- SRA reduced regular position vacancies by 4 from January 2024 to January 2025, reaching 9%. Vacancies, however, remain elevated compared to the budgeted turnover expectancy of 5.8%. The fiscal 2026 allowance provides room to reduce vacancies further by approximately 7 positions.

Issues

1. Fiscal 2024 Returns Beat Assumed Rate of Return and Benchmarks

The system's investment return for fiscal 2024 was 6.93% net of management fees above the assumed rate of return of 6.80%. The system also exceeded its policy benchmarks for the system as a whole by 0.59%. As shown in **Exhibit 6**, the total market value of the system's assets was $68.2 billion as of June 30, 2024, compared to $65.2 billion in assets at the end of fiscal 2023.

Exhibit 6
State Retirement and Pension System of Maryland
Fund Investment Performance for Periods Ending June 30, 2024
($ in Millions)

			Time-weighted Total Returns		
	Assets	**% Total**	**1 Year**	**5 Years**	**10 Years**
Growth Equity					
Public Equity	$20,952	30.70%	17.94%	9.79%	8.03%
Private Equity	14,761	21.60%	5.24%	15.38%	14.95%
Subtotal[1]	**$35,727**	**52.40%**	**12.32%**	**11.55%**	**9.75%**
Rate Sensitive					
Nominal Fixed Income	$8,986	13.20%	-2.09%	-2.65%	0.67%
Inflation Sensitive	2,278	3.30%	2.97%	2.26%	2.31%
Subtotal	**$11,264**	**16.50%**	**-1.08%**	**-1.46%**	**1.10%**
Credit/Debt					
High Yield Bonds and Bank Loans	$1,864	2.70%	10.14%	4.66%	N/A
Private Credit	3,467	5.10%	9.70%	8.04%	7.65%
Credit Hedge Fund	25	0.000%	-24.83%	-9.39%	-4.07%
Non-U.S. Credit	736	1.1%	10.63%	0.99%	-0.03%
Subtotal	**$6,090**	**8.90%**	**9.83%**	**4.82%**	**4.40%**
Real Assets					
Real Estate	$6,443	9.40%	-7.70%	4.02%	6.51%
Natural Resources and Infrastructure	3,088	4.50%	7.21%	6.41%	n/a
Commodities	192	0.30%	n/a	n/a	n/a
Subtotal	**$9,722**	**14.2%**	**-2.82%**	**5.07%**	**3.59%**

			Time-weighted Total Returns		
	Assets	**% Total**	**1 Year**	**5 Years**	**10 Years**
Absolute Return	**$3,960**	**5.8%**	**5.86%**	**3.59%**	**2.50%**
Multi Asset	**$260**	**0.4%**	**9.88%**	**2.27%**	**n/a**
Cash	**$1,222**	**1.8%**	**6.42%**	**2.83%**	**4.23%**
Total Fund	**$68,245**	**100.0%**	**6.93%**	**7.02%**	**6.32%**

[1] The Growth Equity Subtotal includes an additional $13.7 million in stock distribution assets.

Note: Returns beyond one year are annualized. Returns are net of fees. Columns may not add to total due to rounding.

Source: State Street – State Retirement Agency of Maryland – Rates of Return – Net Mgr – Periods Ending June 30, 2024

SRPS BOT sets the allocation of assets to each investment class and continuously monitors the appropriateness of the allocation considering its investment objectives. The asset allocation is structured into five categories:

- ***Growth Equity:*** public equity (domestic, international developed, and international emerging markets) and private equity investments;

- ***Rate Sensitive:*** investments in bonds, loans, or associated derivatives with an average portfolio credit quality of investment grade;

- ***Credit:*** investments in bonds, loans, or associated derivatives with an average portfolio credit quality of below investment grade;

- ***Real Assets:*** investments whose performance is expected to exceed the rate of inflation over an economic cycle; and

- ***Absolute Return:*** consists of investments that are expected to exceed the three-month U.S. Treasury bill by 4% to 5% over a full market cycle and exhibit low correlation to public stocks.

Included within these asset classes are sub-asset classes. The board approves adjustments to the asset allocations and sets transitional targets. The board also approves target ranges for sub-asset classes as well as constraints on hedge fund exposure, with total hedge fund investments capped across all asset classes. **Exhibit 7** shows system asset allocations in relation to the strategic targets in effect on June 30, 2024. The actual allocation of plan funds is close to the board's targets.

Exhibit 7
State Retirement and Pension System Asset Allocation

Asset Class	Actual June 30, 2024	Target July 1, 2024
Growth Equity		
U.S. Equity	14.2%	17.0%
International Equity	8.1%	11.0%
Emerging Markets Equity	4.9%	6.0%
Global Equity	3.6%	n/a
Private Equity	21.6%	16.0%
Subtotal	**52.4%**	**50.0%**
Rate Sensitive		
Nominal Fixed Income	13.2%	16.0%
Inflation-linked Bonds	3.3%	4.0%
Subtotal	**16.5%**	**20.0%**
Credit/Debt		
High Yield Bonds and Bank Loans	7.8%	8.0%
Emerging Market Debt	1.1%	1.0%
Subtotal	**8.9%**	**9.0%**
Real Assets		
Real Estate	9.4%	10.0%
Natural Resources and Infrastructure	4.5%	5.0%
Subtotal	**14.2%**	**15.0%**
Absolute Return	**5.8%**	**6.0%**
Multi Asset	**0.4%**	**n/a**
Cash	**1.8%**	**n/a**
Total Fund	**100.0%**	**100.0%**

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

Source: State Retirement and Pension System; State Street – State Retirement Agency of Maryland – Rates of Return – Net Mgr – Periods Ending June 30, 2024

Exhibit 8 shows how the system performed against class-specific and overall benchmarks. The system performed 0.59% (59 basis points) above the total system return benchmark, indicating that the system's use of active management is yielding returns above what could be achieved through a passive (indexed) approach.

Exhibit 8
State Retirement and Pension System of Maryland
Performance Relative to Benchmarks for Year Ending June 30, 2024

	Return	Return Benchmark	Excess
Growth Equity	**12.32%**	**12.38%**	**-0.06%**
Public Equity	17.94%	17.25%	0.69%
Private Equity	5.24%	6.31%	-1.07%
Rate Sensitive	**-1.08%**	**-1.18%**	**0.10%**
Nominal Fixed Income	-2.09%	-2.15%	0.06%
Inflation Sensitive	2.97%	2.48%	0.48%
Credit	**9.83%**	**10.32%**	**-0.49%**
High Yield Bonds and Bank Loans	10.14%	10.59%	-0.45%
Private Credit	9.70%	n/a	n/a
Credit Hedge Fund	-24.83%	10.35%	-35.18%
Non-U.S. Credit	10.63%	8.10%	2.53%
Real Assets	**-2.82%**	**-5.43%**	**2.61%**
Real Estate	-7.70%	-9.59%	1.90%
Natural Resources and Infrastructure	7.21%	4.56%	2.65%
Absolute Return	**5.86%**	**8.43%**	**-2.58%**
Multi Asset	**9.88%**	**6.34%**	**3.54%**
Cash and Cash Equitization	**6.42%**	**5.64%**	**0.78%**
Total Fund	**6.93%**	**6.34%**	**0.59%**

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

Source: State Street – State Retirement Agency of Maryland – Rates of Return – Net Mgr – Periods Ending June 30, 2024

Another approach to evaluating the system's investment performance is to compare the system's investment performance with the performance of other systems. The Wilshire Trust Universe Comparison Service (TUCS) rankings are useful for providing a big picture, snapshot assessment of the system's performance relative to other large public pension plans. In the TUCS analysis, systems are ranked on a scale of 1 to 100, with a rank of 1 being the system with the highest investment returns for the time period. As shown in **Exhibit 9**, according to TUCS, the system's fiscal 2023 total fund investment performance was rated in the ninety-sixth percentile among the public pension funds with at least $25 billion in assets. As the system has historically had a low allocation to equity investments compared to its peers – and to domestic equity in particular – the system's investment policy will have a low TUCS ranking when equity markets are experiencing strong performance, as has been the case for a number of recent years. The long-term relative performance rankings have placed SRPS' relative total fund performance in the bottom quartile. The TUCS rankings are based on returns gross of fees.

Exhibit 9
TUCS Percentile Rankings for Periods Ending June 30
Fiscal 2021-2024

	2021	2022	2023	2024
1 Year	64	37	96	94
3 Years	57	37	71	89
5 Years	75	43	59	70
10 Years	88	75	78	75

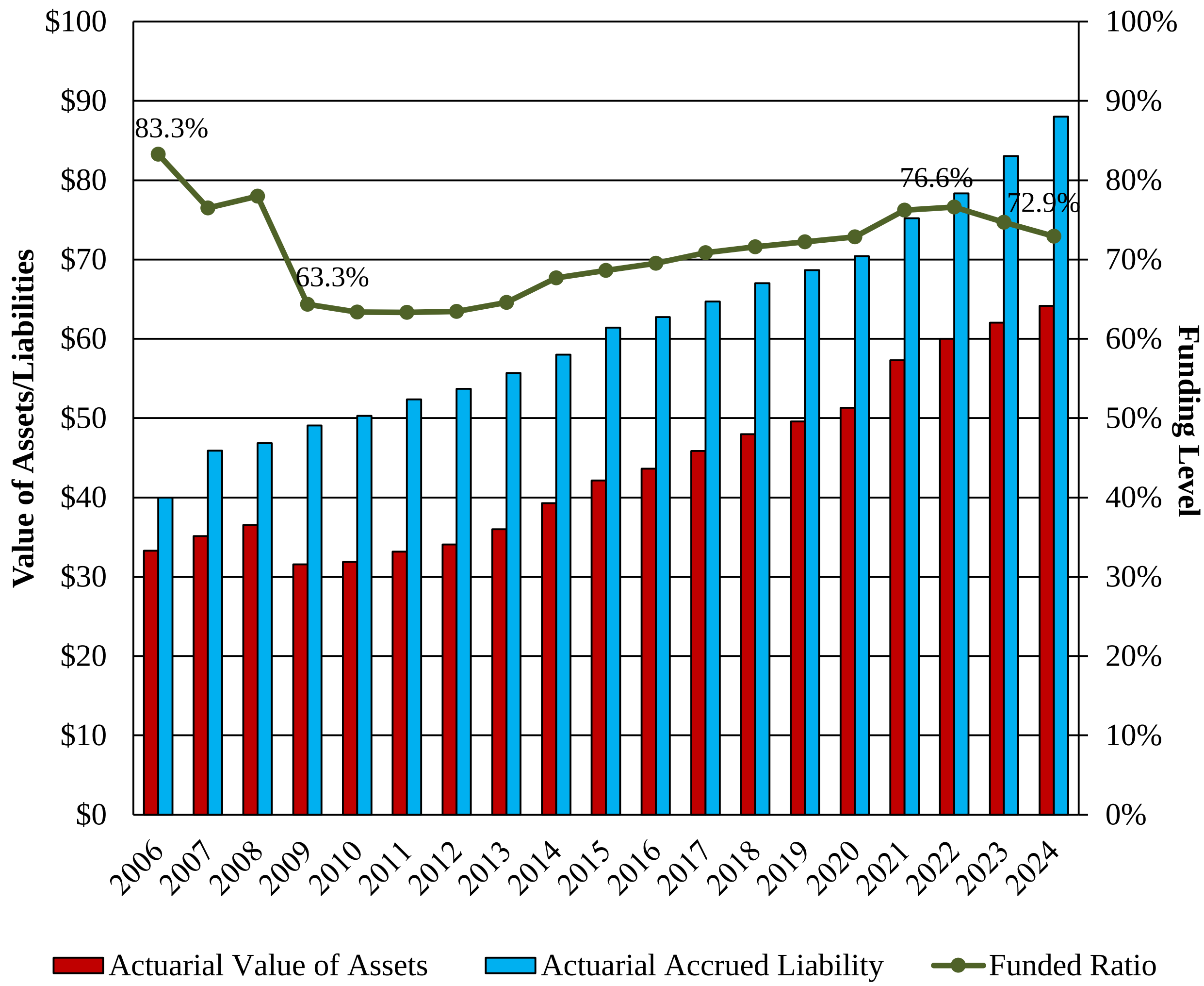
TUCS: Wilshire Trust Universe Comparison Service

Note: Rankings for systems greater than $25 billion.

Source: Wilshire Trust Universe Comparison Service

In the 2011 session, the General Assembly passed comprehensive pension reform (Chapter 397) aimed at addressing the long-term sustainability of the State's defined benefit pension plans and the affordability of the State's contributions to those plans. At that time, SRPS had only 63% of assets necessary to cover its liability. As shown in **Exhibit 10**, the actual funded ratio in fiscal 2024 was 72.9% for all State plans, which is down from 76.6% in fiscal 2022.

Exhibit 10
State Plans Pension Assets, Liabilities, and Funded Ratio
Fiscal 2006-2024
($ in Billions)



Source: State Retirement Agency

2. Proposed Repeal of Supplemental Pension Contribution

Chapter 717 of 2024 eliminated a longstanding reduction that the State was required to make to its contribution to the Teachers' Combined Systems. This reduction was a component of the process for determining the administrative fees due to SRA. To offset the lost reduction, the annual $75 million supplemental payment in excess of the actuarially determined contribution was reduced to $50 million beginning in fiscal 2025. The BRFA of 2025 proposes to eliminate the supplemental payment altogether beginning in fiscal 2026. The supplemental payment is not required to fund the system to the actuarially recommended level but has been used to increase the funded ratio of assets to liabilities, using a portion of the savings generated by the 2011 pension reform to make up for persistent underfunding of the system for the previous 10 years. Under current law, the supplemental payment ends when the system reaches an 85% funding level.

In addition to eliminating the pension supplemental payment, the BRFA also proposes to end the requirement that up to $25 million of the general fund's unexpended balance be contributed to SRPS annually. This "sweeper" payment has been suspended in most years since it was first required by statute in fiscal 2017; it was not included in the fiscal 2024 or 2025 budgets as enacted.

3. Consensus Legislation to Repeal Administrative Fees

Legislation set to be introduced in the 2025 session would reshape the way SRA is funded. Prior to July 1, 2011, the administrative budget for SRA, based on statutory authority, was funded solely through special funds drawn down from the pension trust fund. Chapter 397 changed this process and requires SRA to apply a per member charge on all employers participating in the system to fund its operating expenses.

The current process of determining the amount of administrative fees that each participating employer owes the system in any given year is based on a formula that involves determining the number of employees who are also members of the several systems as of June 30 of the second prior fiscal year for each employer and dividing this number by the total number of current members in the system. This percentage is applied to the actual amount that SRA spent during the second previous fiscal year. Each participating employer is then notified in October of each year what they will owe the system in administrative fees for the upcoming fiscal year.

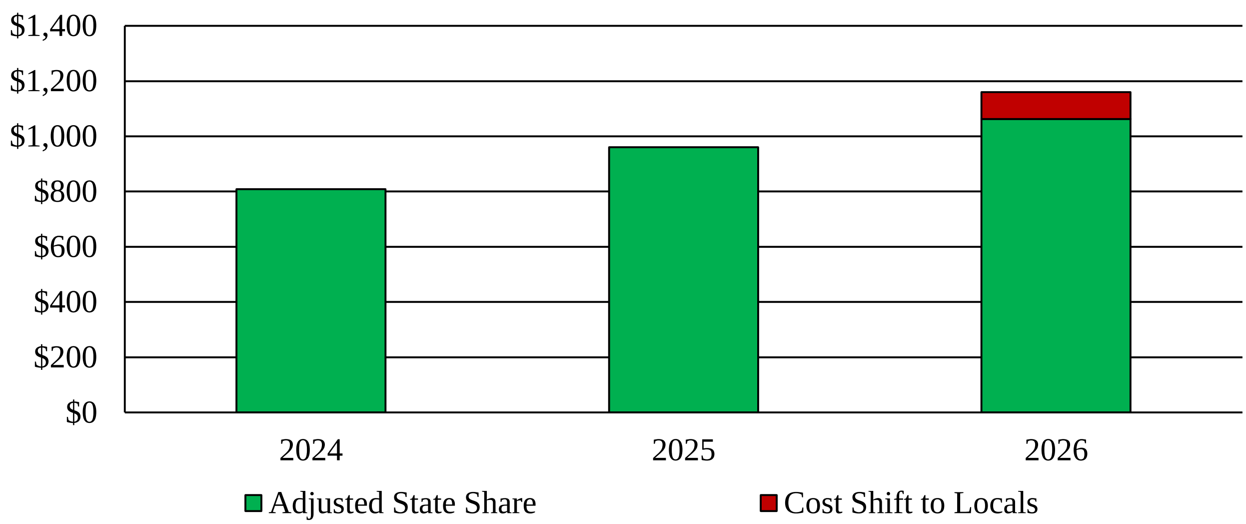
When calculating the administrative fees for SRA operations, the Finance Division for SRA and the budget analysts for the Department of Budget and Management (DBM) and DLS continue to use differing methodologies when determining the final close-out number for SRA for the previous fiscal year. The three agencies met throughout summer 2024 to discuss the entire process for determining administrative fees for SRA and agreed that the current method of funding SRA's operating expenses continues to be overly cumbersome. The three agencies reached the consensus that there is no meaningful benefit to the system, the State, or other participating employers of the system to maintain the current process of funding SRA's operating expenses through administrative fees. Therefore, on behalf of SRA, DBM, and DLS, the board recommended returning to the past practice of funding SRA operating expenses through funds drawn down from the SRPS trust. These funds would be collected through an operating expense add-on to the employer contribution rate determined by the system's actuary each fiscal year. In addition to significantly reducing the complexity of this process for the three agencies, this proposal would also simplify the payment process for SRPS participating employers. The proposal would provide that, going forward, participating employers would only receive one annual bill from the system.

SRA indicates that the proposal would not have a fiscal impact on the system, because the operating expense percentage determined by the system's actuary should generate the same revenues that would otherwise be collected through the administrative fees. Because the proposed change would allow SRA to replace administrative fees with fund balance from the nonbudgeted Pension Trust Fund, the Governor included a $5.69 million contingent general fund reversion pending the passage of this legislation for fiscal 2026. The $5.69 million represents approximately 47% of general funds set aside by State agencies to pay SRA administrative fees in fiscal 2026.

4. The BRFA Proposes to Reduce State Share of Teacher Retirement

The State is required by statute to fund a share of the employer contribution for local employees in the Teachers' Retirement System and TPS. This share varies each year depending on the normal contribution rate set by the SRA BOT. The BRFA of 2025 includes cost containment measures to permanently lower the State subsidy by $97,744,521 in fiscal 2026 and each year thereafter. **Exhibit 11** shows the cost shift in relation to the overall amount provided by the State.

Exhibit 11
Local Teacher Retirement Grant Funding
Fiscal 2024-2026
($ in Millions)



Source: Department of Budget and Management

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

Appendix 1
2024 *Joint Chairmen's Report* Responses from Agency

The 2024 *Joint Chairmen's Report* (JCR) requested that SRA prepare one report. Electronic copies of the full JCR responses can be found on the DLS Library website.

- ***Impact of Catastrophic Injuries on Law Enforcement Pension Benefits:*** The requested report has not been submitted. The agency estimates the report will be ready by February 2025.

Appendix 2
Projected Retirement Appropriations
Fiscal 2017-2026
($ in Millions)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
State Employer Base	$1,533.8	$1,547.5	$1,569.8	$1,627.7	$1,669.6	$1,736.6	$1,698.3	$1,800.5	$2,146.5	$2,391.7
Supplemental	75.0	75.0	75.0	75.0	75.0	75.0	75.0	54.0	50.0	0.0
Sweeper	50.0	0.0	0.0	0.0	0.0	0.0	25.0	0.0	0	0
Governor	25.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0	0
Total State	**$1,683.8**	**$1,622.5**	**$1,644.8**	**$1,702.7**	**$1,744.6**	**$1,811.6**	**$1,798.3**	**$1,854.5**	**$2,196.5**	**$2,391.7**
Local School Boards	$279.8	$280.5	$283.8	$288.6	$293.8	$296.5	$373.0	$380.2	$397.1	$536.4
Total Employer	**$1,963.6**	**$1,903.0**	**$1,928.6**	**$1,991.3**	**$2,038.4**	**$2,108.1**	**$2,171.3**	**$2,234.7**	**$2,593.6**	**$2,928.1**

Note: Fiscal 2026 reflects $97.7 million in cost shifted from the State Employer Base to Local School Boards.

Source: State Retirement Agency; Department of Legislative Services