Joint Committee on Pensions

2020 Interim Report

Annapolis, Maryland
January 2021

Joint Committee on Pensions
2020 Interim Report

Annapolis, Maryland
January 2021

Contributing Staff

Writers
Phillip S. Anthony
June Chung

Support Staff
Katylee Cannon

For further information concerning this document contact:

Library and Information Services
Office of Policy Analysis
Department of Legislative Services
90 State Circle
Annapolis, Maryland 21401

Baltimore Area: 410-946-5400 ● Washington Area: 301-970-5400
Other Areas: 1-800-492-7122, Extension 5400
TTY: 410-946-5401 ● 301-970-5401
TTY users may also use the Maryland Relay Service
to contact the General Assembly.

Email: libr@mlis.state.md.us
Home Page: http://mgaleg.maryland.gov

THE MARYLAND GENERAL ASSEMBLY
ANNAPOLIS, MARYLAND 21401-1991

JOINT COMMITTEE ON PENSIONS

December 18, 2020

The Honorable Bill Ferguson, Co-Chair
The Honorable Adrienne A. Jones, Co-Chair
Members of the Legislative Policy Committee

Ladies and Gentlemen:

The Joint Committee on Pensions herewith submits a report of its 2020 interim activities and legislative recommendations. The joint committee met twice during the 2020 interim and addressed a legislative proposal requested by the Board of Trustees for the State Retirement and Pension System and a legislative proposal regarding system administration of death benefits related to COVID-19. The joint committee made recommendations on these items at its final meeting for the 2020 interim. The joint committee also had its annual briefings on the actuarial valuation of the system and the system's investments.

We thank the joint committee members for their diligence and attention to the work of the committee. Also, on behalf of the committee members, we thank Phillip S. Anthony, June Chung, and Katylee Cannon of the Department of Legislative Services and the staff of the Maryland State Retirement Agency for their assistance. Additionally, on behalf of the joint committee, we congratulate R. Dean Kenderdine on his announced retirement and extend our thanks for his more than 14 years of faithful service as the Executive Director of the State Retirement Agency.

Sincerely,

Senator Sarah K. Elfreth
Senate Chair

Delegate Michael A. Jackson
House Chair

SKE:MAJ/PSA:JC/kmc

Enclosure

cc: Ms. Victoria L. Gruber
Mr. Ryan Bishop
Mr. Jake Weissmann
Ms. Alexandra Hughes

Maryland General Assembly
Joint Committee on Pensions
2020 Interim
Membership Roster

Sarah K. Elfreth, Senate Chair
Michael A. Jackson, House Chair

Senators

Adelaide C. Eckardt
Melony Griffith
Cory V. McCray
Douglas J.J. Peters
Craig J. Zucker

Delegates

Mark S. Chang
Keith E. Haynes
Carol L. Krimm
Brooke E. Lierman
Ric Metzgar
Kirill Reznik

Committee Staff

Phillip S. Anthony
June Chung

Contents

Joint Committee on Pensions
2020 Interim Report

Over the course of two meetings during the 2020 interim, the Joint Committee on Pensions had a briefing on one legislative proposal requested by the Board of Trustees for the State Retirement and Pension System (SRPS) and an additional briefing on COVID-19-related death benefits. The joint committee also had its annual briefings on the actuarial valuation of the system and the system's investments.

Results of the 2020 Actuarial Valuation and Fiscal 2022 Contribution Rates

From fiscal 2019 to 2020, SRPS's funded status (the ratio of projected actuarial assets to projected actuarial liabilities) improved from 72.3% at the end of fiscal 2019 to 73.6% at the end of fiscal 2020 (these figures exclude funding for local governments that participate in the State plan). Several combined factors set the system up for continued improvement in its funding status, including the increasing number of new members entering the system under the reformed benefit structure enacted in 2011, the elimination of the corridor funding method, and continued supplemental contributions. From fiscal 2019 to 2020, the total State unfunded liability increased from $19.053 billion to $19.104 billion.

Fiscal 2022 Contribution Rates

Exhibit 1 shows that the employer contribution rate with reinvestment savings for the Teachers' Combined Systems will decrease from 15.65% in fiscal 2021 to 15.33% in fiscal 2022, and the contribution rate for the Employees' Combined Systems will decrease from 21.36% in fiscal 2021 to 21.12% in fiscal 2022. The aggregate contribution rate, including contributions for public safety employees and judges, decreases from 18.46% in fiscal 2021 to 18.18% in fiscal 2022. Based on projected payroll growth and other factors, the SRPS actuary estimates that total employer pension contributions will increase from $2.038 billion in fiscal 2021 to $2.106 billion in fiscal 2022. The fiscal 2022 contribution rates are the actuarially determined contribution rates and reflect an investment return assumption of 7.40%. The funding rates and contribution amounts are inclusive of the $75 million supplemental contribution required by Chapter 489 of 2015.

Exhibit 1
State Pension Contributions
Fiscal 2021 and 2022
($ in Millions)

	2021		2022	
Plan	Rate	Contribution	Rate	Contribution
Teachers' Combined	15.65%	$1,154.1	15.33%	$1,184.0
Employees' Combined	21.36%	722.7	21.12%	751.6
State Police	79.03%	88.6	76.16%	92.8
Judges	40.27%	20.6	41.93%	22.8
Law Enforcement Officers	43.93%	52.5	43.18%	55.3
Aggregate	**18.46%**	**$2,038.4**	**18.18%**	**$2,106.4**

Note: Except for the Teachers' Combined System (TCS), contribution rates and dollar amounts reflect State funds only, excluding municipal contributions. For TCS, it reflects the combined total of State and local contributions. Figures also reflect the $75 million supplemental contribution required by Chapter 489 of 2015.

Source: Gabriel, Roeder, Smith, & Co., Preliminary Results of the June 30, 2020 Actuarial Valuation for Fiscal Year 2022

State Retirement and Pension System Investment Performance

SRPS's investment return for the fiscal year that ended on June 30, 2020, was 3.57%, failing to exceed the assumed rate of return of 7.40%. System assets grew to a market value of $54.8 billion as of June 30, 2020. Investment returns were below the assumed rate of investment return for the second consecutive year, with returns exceeding the assumed rate of return in two of the last five years. The system as a whole outperformed its policy benchmark by 0.43% (43 basis points). Total system return for fiscal 2016 through 2020 is 5.80%, which is 0.03% (3 basis points) below the plan return benchmark for that period. Total system return for the past 10 years is 7.57%, which is 0.40% (40 basis points) above its benchmark for that period.

Board Requested Legislation

Fiduciary Bond

Provisions of the State Personnel and Pensions Article require the State to purchase a bond for each system fiduciary in accordance with Title 9, Subtitle 17 of the State Government Article, which establishes a committee on bonding of State officers and employees, and provides for the State Treasurer to purchase bonds required by law and any additional bonds specified by the committee. Specifically, § 21-210 of the State Personnel and Pensions Article provides that a system fiduciary "may not exercise custody or control of System assets" unless bonded.

To address the statutory bond requirement, the State Treasurer's Office (STO) has purchased a $1 million employee theft policy for the system, covering direct loss or damage to money, securities, or other property caused by theft or forgery committed by an State Retirement Agency (SRA) employee or member of the Board of Trustees, whether identified or not, acting alone or in collusion with other parties. The policy also covers losses due to computer fraud.

SRA and STO recently undertook a review of the bonding provisions and evaluated the availability of fidelity bonds through the Treasurer's insurance broker. On review, it did not appear that the fidelity bonds available in the marketplace would afford effective protection to the system, as these bonds covered assets held by plans subject to the Employee Retirement Income Security Act (ERISA) of 1974, while governmental plans such as the system are exempt from ERISA's requirements. Additionally, an informal query of peer plans did not reveal any other governmental plan overseen by a board of trustees that is subject to a statutory bond requirement for its fiduciaries.

For these reasons, the board recommended that § 21-210 be amended to provide that the State may satisfy the requirement to purchase a bond through the purchase of an insurance policy for the system to cover losses due to theft.

The joint committee will sponsor the requested legislation.

Other Issues Presented to the Joint Committee

Line-of-Duty Death Benefits for COVID-19

Existing law provides a benefit for a line-of-duty death of a member of one of the several systems. These benefits are found under Title 29, Subtitle 2 of the State Personnel and Pensions Article. Generally, if an employee dies or is killed in the performance of their duty, their surviving family members can receive a benefit of an allowance of two-thirds of the member's average final compensation and payment of the member's contributions.

A question arose as to how a death related to COVID-19 would be treated for purposes of the line-of-duty death benefits available under current law for system members. While current law would not on its face prohibit the survivors of a member from applying and receiving a line-of-duty death benefit, clarification on how these claims should be administered by the system would provide equitable administration of claims by establishing a uniform policy on when a member would be considered eligible for a line-of-duty death benefit and the types of information that should be submitted in support of a claim for the benefit. The joint committee was briefed on actions taken or pending in other states, and on relevant policy considerations for potential legislation regarding whether any clarifications or presumptions would be needed or helpful in effecting the plan design providing for line-of-duty death benefit claims regarding the death of a member as a result of contracting COVID-19.

The joint committee will sponsor legislation to clarify the administration of line-of-duty death benefits. The legislation will establish a presumption of eligibility for death benefits for deaths caused or contributed to by COVID-19 for system members who contract COVID-19 within 14 days of reporting to work. The legislation will have a one-year sunset, specify documentation that shall be acceptable in verifying a death was caused by COVID-19, and will apply retroactively back to the beginning of the State of Emergency.