Testimony in Support of Senate Bill 466 JCP Amorti

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Testimony in Support of Senate Bill 466
State Retirement and Pension System - Amortization of Unfunded Liabilities and Surpluses
Senate Budget and Tax Committee

February 16, 2023
8:30 A.M.

Martin Noven
Executive Director
State Retirement Agency

The Board of Trustees for the State Retirement and Pension System wishes to express its support for Senate Bill 466, State Retirement and Pension System - Amortization of Unfunded Liabilities and Surpluses.

Senate Bill 466 amends the System's existing amortization policy. The change to the existing policy is intended to avoid potential volatility in the System's employer contribution rates, as the current 25-year closed amortization, scheduled to end in 2039, approaches its final years. The Board and its actuary, both aware of this impending volatility risk, began reviewing and considering new amortization policies in the 2021 interim. After reviewing four different options, the Board elected to recommend a policy that would leave the amortization policy of the existing liabilities of the System, unchanged, but would take a different approach to future liabilities that will accrue on or after July 1, 2023. Because a change in the System's amortization policy requires legislation, during the 2022 interim, the State Retirement Agency, the System's actuary and the Joint Committee on Pensions with its staff and actuary, worked together to review the Board's recommended policy and address the limited concerns the Joint Committee raised regarding this policy. Senate Bill 466 reflects the work of the 2022 interim.

Specifically, Senate Bill 466 provides that the System will continue to amortize any existing unfunded liabilities as of June 30, 2023, over the next 15 years until June 30, 2039. Any new unfunded liabilities incurred on or after July 1, 2023, will be amortized over closed periods as follows:

- 15 years for experience gains and losses;
- 25 years for the effect of changes in actuarial assumptions and methods;
- at least 10 but not more than 15 years of the effect of any new legislation effective on or after July 1, 2023; and
- 5 years for any accrued liability resulting from legislation providing for any early retirement incentives for State employees, not including legislative changes to the existing early retirement provisions included in the State Personnel and Pensions Article.

The bill will also permit the Board, on the recommendation of the System's actuary, to adjust the period of amortization for new liabilities or surpluses accrued in any fiscal year for the purpose of mitigating tail volatility in the annual contribution rate.

We appreciate being given this opportunity to express our support to the Budget and Tax Committee for this legislation and would request a favorable report on Senate Bill 466.

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TESTIMONY - SENATE BILL 466

STATE RETIREMENT AND PENSION SYSTEM – AMORTIZATION OF UNFUNDED LIABILITIES AND SURPLUSES

BUDGET AND TAXATION COMMITTEE

FEBRUARY 16, 2023

Fellow Committee Members:

Senate Bill 466 is a departmental bill that deals with amortization rates for the State Retirement and Pension System (SRPS).

Beginning on July 1, 2023, this legislation would enable the Board of Trustees of SRPS to set rates for all unfunded liabilities or surpluses accrued as of June 30, 2023. It would allow rate setting for any new unfunded liabilities or surpluses that have accrued from July 1 of the preceding fiscal year over:

- 1) 15 years for experience gains and losses
- 2) 25 years for the effect of changes in actuarial assumptions and methods
- 3) At least 10 years but not exceeding 15 years for the effect of any new legislation and
- 4) 5 years for accrued liability resulting from legislation providing for the early retirement of state employees

This is a very straightforward bill simply designed to help the SRPS better amortize funds and **I ask the committee for a favorable report of SB 466.**