

Testimony in Support of Senate Bill 834 JCP Admin

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**Testimony in Support of Senate Bill 834
State Retirement and Pension System – Administrative Fees
Senate Budget and Tax Committee**

**March 2, 2023
8:30 A.M.**

**Anne Gawthrop
Director of Legislative Affairs
State Retirement Agency**

The Board of Trustees for the State Retirement and Pension System wishes to express its support for Senate Bill 834, State Retirement and Pension System – Administrative Fees. Senate Bill 834 is legislation sponsored by the Joint Committee on Pensions at the request of the Board.

This legislation would amend the current practice of funding the State Retirement and Pension System (System) through administrative fees. Senate Bill 834 requires the Board to fund its annual administrative and operational expenses from the accumulation funds of each State system, and then reimburse the accumulation funds with the administrative fees received by the State Retirement Agency (Agency) from the participating employers of the State. The allowance included in the Governor's budget each year for administrative fees for the upcoming fiscal year will be the actual administrative and operational expenses incurred by the Board and the Agency as of June 30 of the second prior fiscal year from the upcoming fiscal year.

Prior to July 1, 2011, the administrative budget for the Agency, based on statutory authority, was funded solely through special funds drawn down from the pension trust fund. Chapter 397 of 2011 changed this process and now requires the Agency to apply a per employee charge on all employers participating in the System. Under current law, to calculate the amount owed by the State and each local participating employer, the Agency determines the number of employees for each employer that are also members of the several systems as of June 30 of the second prior fiscal year and divides this number by the current member total of the System. This percentage is applied to the allowance the Governor includes in the budget bill for the upcoming fiscal year. Each participating employer, including the State, then is notified of the amount they will be required to pay for administrative fees to the Agency for the next fiscal year. It is important to note that this calculation is based on the allowance the Governor includes in the budget bill for the operating budget of the Agency, and not the actual amount that is appropriated for the Agency, once the budget bill is passed. The State is required to pay this amount to the Agency on July 1 of the appropriate fiscal year, while local participating employers must pay their portion on a quarterly basis to the Agency (October 1, January 1, April 16, and June 1).

Because the amount of administrative fees certified to the participating employers of the System is based on the Governor's allowance and not the final appropriation or actual expenditures for the Agency, the Agency is required to track any over or under payments made by the System's participating employers

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and recoup or refund these differences on or before June 30 of the second following fiscal year through the administrative expenses billed for that year to the participating employers. Additionally, any budget amendments that occur throughout the current fiscal year for administrative expenses are be paid from the System's accumulation fund. Similar to the any recoupment the Agency tracks for the participating employers regarding differences between the Agency's expenditures and the Governor's initial budget allowance, these unanticipated budget expenses are also recouped from the participating employers on or before June 30 of the second following fiscal year through administrative expenses billed for that year to the System's participating employers.

From the outset, this process is fraught with problems. Because these rates must be certified on or before the February immediately preceding the start of the fiscal year in question, the certified rate has never equaled the amount that is actually included in the budget bill once it is enacted. Accordingly, the amount spent by the Agency in any fiscal year based on its budget appropriation, is never the same as the amount certified. These discrepancies create guaranteed surpluses or deficiencies that the Agency and the Department of Budget and Management (DBM) must track and resolve to either refund or charge in the second fiscal year immediately following the fiscal year in question.

Senate Bill 834 greatly simplifies this process. The process established under Senate Bill 834 will eliminate the need for the Agency and DBM to track any year over year differences between the certified rate and what was actually spent by the Agency. Additionally, by certifying the administrative fees for the upcoming fiscal year as the actual expenditures of the previous fiscal year, Senate Bill 834 will also allow the Agency to certify this rate to the participating employers of the System as early as the September immediately prior to the upcoming fiscal year. This would provide both the State and local employers with an additional five months to plan for this expense in their budgets.

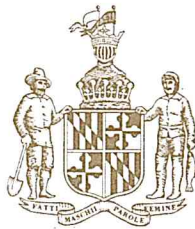
We appreciate being given this opportunity to express our support to the Budget and Tax Committee for this legislation and would request a favorable report on Senate Bill 834.

2023JacksonSB834Testimony.pdf

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THE SENATE OF MARYLAND
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TESTIMONY – SENATE BILL 834
STATE RETIREMENT AND PENSION SYSTEM –
ADMINISTRATIVE FEES
BUDGET AND TAXATION COMMITTEE
MARCH 2, 2023

Fellow Committee Members:

Senate Bill 834 comes to us by request and alters the method that administrative fees are calculated and remitted to the State Retirement and Pension System. It also requires the system to provide notice to local participating employers and it makes a couple of other changes relating to the funding of expenses incurred by the Board of Trustees for the State Retirement and Pension System and the State Retirement Agency.

This bill is just a simple effort to help the State Retirement and Pensions System more efficiently perform its duties.

For the reasons listed above, I ask for a favorable report of SB 834.