STATE RETIREMENT AGENCY
120 East Baltimore Street
Baltimore, MD 21202-6700

MARYLAND
STATE RETIREMENT
and PENSION SYSTEM

410-625-5555 • 1-800-492-5909
TTY Users: call via Maryland Relay
sra.maryland.gov

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.