MARYLAND STATE TREASURER
Dereck E. Davis

Senate Bill 270: Board of Trustees of the Maryland Teachers and State Employees Supplemental Retirement Plans – Automatic Enrollment

Position: Favorable with Amendments

Senate Budget and Taxation Committee | Pensions Subcommittee

January 30, 2025

Thank you for the opportunity to express my support for Senate Bill 270, which establishes automatic enrollment in the Maryland Teachers and State Employees Supplemental Retirement Plans (MSRP) for employees hired on or after January 1, 2026. I write both as State Treasurer and as a member of the Board of Trustees of the Maryland Teachers and State Employees Supplemental Retirement Plans (MSRP Board).

The legislation is familiar to this Committee, which passed Senate Bill 322 last session with a near-unanimous vote. For the reasons stated below, I request that the Committee give Senate Bill 270 a favorable with amendments report.

Need for Policy Change

It is well documented that many retirees are ill-prepared for retirement; a fact that I have testified to repeatedly since becoming Treasurer and serving on various State retirement boards. While MSRP continually strives to expand its outreach to State employees, there are still many State employees who do not utilize the Plans. As of the third quarter of 2024, only 40.5% of all eligible State employees were actively participating in their supplemental retirement savings by deferring/contributing to MSRP Plan accounts. This kind of underutilization is common in states with defined benefit plans, as the focus is often on those plans instead of other plans that are available.

A 2023 survey of existing studies on employee retirement readiness revealed, not surprisingly, that a common impediment to retirement saving is the requirement to self-enroll. According to research compiled by the Center for State & Local Government Excellence, nearly three-quarters (74%) of working adults prefer to be automatically enrolled in a retirement savings plan by their employer.[1] A

[1] "Automatic Enrollment Study," Maryland Teachers and State Employees Supplemental Retirement Plans, page 2 (August

2021 survey by Principal, a financial services provider, found that 84% of employees reported that automatic enrollment was the reason they began saving for retirement and that they would not have started saving as early if they had to enroll on their own.[2]

Senate Bill 270 takes the onus off new employees by reducing administrative barriers for those who want to participate and preserving choice for those who want to opt-out. Participants would be able to adjust their contribution amounts up or down at any time or could elect to cease or resume all payroll deductions as they so choose. Employees not wishing to participate would have 90 days from the date of the first automatic payroll deduction to elect to opt-out and be refunded the amount of the contribution as well as any earnings.

National Landscape

Establishing automatic enrollment in this manner brings Maryland in line with 25 states and many private-sector employers. As part of MSRP's 2023 survey of existing studies, the agency profiled four states[3] that have adopted automatic enrollment. The data demonstrates that each of these states implemented automatic enrollment at a time when their lowest-paid employees made less than Maryland's lowest-paid employees currently make. In several of the states, the respective defined benefit pension plans deducted a greater percentage of their employees' salaries than the seven percent currently deducted from Maryland employees' pay. Taken together, these examples contextualize Senate Bill 270 as a reasonable approach that will help to address the retirement savings crisis facing our State.

State	Start of Auto Enrollment	Lowest State Salary FY 2025	Lowest State Salary at Start of Auto Enrollment	Auto Enrollment Deduction Amount	Defined Benefit Pension Percent of Salary Deducted
Maryland		**$36,093**			**7%**
Ohio	10/1/2022	$28,122	$26,000	$25 per pay	10%
Kentucky	7/1/2019	$18,984	$15,948	$15 per pay	9%
South Dakota	7/1/2009	$26,956	$15,080	$25 per pay	6%
Texas	9/1/2008	$24,893	$17,376	1% of salary per pay	6%

Source: MSRP

2023), citing "Using Automatic Enrollment in Local Government Retirement Plans to Increase Savings," Center for State & Local Government Excellence (June 2014).

[2] Principal® survey: 84% of workers say auto-enrollment key to saving earlier for retirement, but only one-third of employers provide the feature | Principal (July 15, 2021).

[3] MSRP's Automatic Enrollment Study contains detailed profiles on these four states' plans. These states were chosen because Texas and South Dakota were among the first states ever implement auto enrollment, while Kentucky and Ohio are among the states that have very recently implemented auto enrollment.

Amendments

In good faith, I recently met with representatives of the American Federation of State, County and Municipal Employees (AFSCME) Maryland Council 3 and other interested parties to understand various perspectives on the bill. As a result of those meetings, I propose three amendments for the Committee's consideration.

Flexibility for Higher Education Institutions

During the 2024 session, the House Appropriations Committee passed Senate Bill 322 with an amendment to authorize higher education institutions that participate in the Optional Retirement Plan and have the option of providing their own supplemental retirement plan to automatically enroll employees in the plan that the institution chooses. I support amending Senate Bill 270 in this fashion, because higher education institutions could select the default supplemental retirement plan for their employees, while the majority of State employees (approximately two-thirds) would be automatically enrolled in MSRP's plan.

Specifying a Minimum Deduction Amount

The next amendment specifies that the default deduction amount, which will be set by the MSRP Board, may not exceed $25.00. By establishing a ceiling on the minimum contribution amount, the amendment should alleviate concerns about affordability for the State's lowest paid employees and provide more certainty about the amount that will be contributed from employees' pay.

Enhancing Outreach to Employees

The last amendment requires employees to be offered a virtual or in-person counseling appointment regarding the supplemental retirement plan and the period for opting out of the plan. This establishes a face-to-face touchpoint to ensure that employees know about the retirement savings offering and the opt-out timeframe.

With the amendments reflected on page 4 of this testimony, I respectfully request a favorable with amendments report on Senate Bill 270. Please contact Laura Atas, Deputy Treasurer for Public Policy (latas@treasurer.state.md.us), with any questions.

PROPOSED AMENDMENTS

BY: Chair, Senate Budget and Taxation Committee
(To be offered in the Senate Budget and Taxation Committee)

AMENDMENTS TO SENATE BILL 270

(First Reading File Bill)

AMENDMENT 1

On page 1, in line 6 after "employees;" insert "authorizing a certain employing institution to automatically enroll employees into a certain supplemental retirement plan;".

AMENDMENT 2

On page 2, in line 15, strike "**THE**" and substitute "**(1) EXCEPT AS PROVIDED IN PARAGRAPH (2) OF THIS SECTION, THE**"; in line 17, after "plan." insert:

"**(2) AN EMPLOYING INSTITUTION REFERENCED UNDER § 30-401 OF THIS ARTICLE MAY AUTOMATICALLY ENROLL EMPLOYEES INTO THE SUPPLEMENTAL PLAN THAT THE EMPLOYING INSTITUTION CHOOSES.**".

AMENDMENT 3

On page 2, in line 25, after "**BOARD,**" insert "**NOT TO EXCEED $25,**".

AMENDMENT 4

On page 3, in line 1, after "**(1)**", insert "**OFFERED A VIRTUAL OR IN-PERSON COUNSELING APPOINTMENT TO DISCUSS THE SUPPLEMENTAL RETIREMENT PLAN AND THE TIMELINE FOR DISCONTINUING PARTICIPATION;**

(2)"; in line 17, strike "**(2)**" and substitute "**(3)**".