SB 862 Repeal of Adminsitrative Fees - Support.pdf
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Testimony in Support of Senate Bill 862
State Retirement and Pension System - Administrative Fees - Repeal
Senate Budget and Tax Committee
February 13, 2025
9:00 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 862, State Retirement and Pension System - Administrative Fees - Repeal. Senate Bill 862 is legislation sponsored by the Joint Committee on Pensions at the request of the Board.

Prior to July 1, 2011, the administrative budget for the State Retirement Agency (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 to fund its operating expenses.

The current process of determining the amount of administrative fees that each participating employer owes the Agency in any given year is based on a formula that involves determining 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 dividing this number by the total number of current members in the System. This percentage is applied to the actual amount that the Agency spent during the second previous fiscal year. Each participating employer is then notified in October of each year what they will owe the Agency in administrative fees for the upcoming fiscal year.

When calculating the System's administrative fees, the Finance Division for the Agency and the budget analysts for the Department of Budget and Management (DBM) and DLS continue to use differing methodologies when determining the final close-out number for the Agency for the previous fiscal year. The three agencies met throughout the 2024 summer to discuss the entire process for determining the administrative fees for the Agency and agreed that the current method of funding the Agency's operating expenses continues to be overly cumbersome.

Throughout these discussions, the agencies reviewed the changes that were made to the process during the 2024 legislative session and recent information received by the System's actuary. The 2025 Budget Reconciliation and Financing Act (Chapter 717 of 2024) eliminated a longstanding reduction the State was required to make to the Teachers' Pension System employer contribution. This reduction was a component of the process for determining the administrative fees due to the Agency. To mitigate the loss of this reduction, the annual $75 million the System has received in supplemental payments was reduced to $50 million. Additionally, the System's actuary reported that the General Accounting Standards Board (GASB) would prefer that actuaries for public pension plans, when calculating the annual employer contribution rate for a public plan, include a certain percentage above the employer contribution rate that serves to cover a plan's operating expenses. The System's actuary also noted that it is unaware of any other public plans that fund their operating expenses through administrative fees similarly to Maryland.

In light of the 2024 legislative changes coupled with the information provided by the System's actuary, Senate Bill 862 returns the Agency to its past practice of funding the Agency's operating expenses through funds drawn down from the Trust. The provisions of Senate Bill 862 provide that beginning in fiscal year 2027, the normal cost component of the employer contribution rate recommended each fiscal year by the System's actuary shall include an amount necessary for the administrative and operational expenses of the Agency, excluding the administrative and operational expenses of the Investment Division. In addition to significantly reducing the complexity of this process for the three agencies, Senate Bill 862 will also simplify the payment process for the System's participating employers.

To address the funding of the Agency's administrative and operational expenses for fiscal year 2026, Senate Bill 862 provides that the Agency shall be paid out of the accumulation fund of each State system on a pro rata basis, and not by any of the participating employers of the System. The Agency's administrative and operational expenses for fiscal year 2026 are projected to be approximately $32.5 million. Given that the Agency will fund these expenses from the System's accumulation fund, this will result in a slight increase to the System's unfunded liability for fiscal year 2026.

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 862.

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TESTIMONY – SENATE BILL 862

STATE RETIREMENT AND PENSION SYSTEM– ADMINISTRATIVE FEES – REPEAL

BUDGET & TAXATION COMMITTEE

FEBRUARY 13, 2025

Chair Hettleman and Fellow Committee Members:

Senate Bill 862 is a piece of legislation that makes a few changes to the administrative fee structure and the general administrative structure within the State Retirement and Pension System (SRPS) and the State Retirement Agency (SRA).

Chiefly, this bill would require the Board of Trustees for the SRPS to certify certain employer contribution rates each year and repeal an existing requirement that funds certain administrative and operational expenses of SRPS and SRA by participating employers.

This legislation is a straightforward means to the end of improving the administrative fee structure of the State Retirement and Pension System and the State Retirement Agency.

For the reasons listed above, I ask for a favorable report of Senate Bill 862.