G20J01

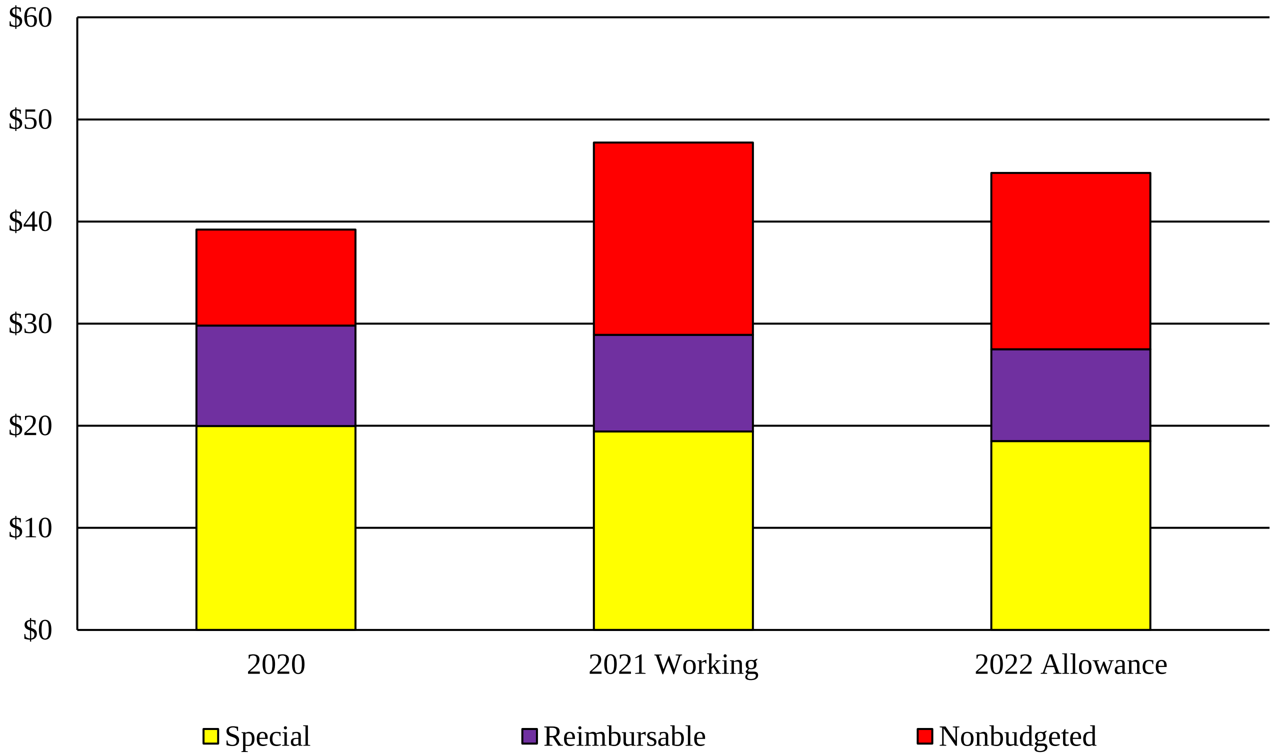
State Retirement Agency

Executive Summary

The State Retirement Agency (SRA), under the direction of the board of trustees, is responsible for administering the State Retirement and Pension System (SRPS). SRA is responsible for policy development, legislation, and legal affairs related to the State's retirement systems as well as investments, benefit payments, and employer/employee contributions.

Operating Budget Summary

Fiscal 2022 Budget Decreases $3 Million, or 6.3%, to $44.7 Million
($ in Millions)



Note: Numbers may not sum due to rounding.

- Total funding for SRA declines by $3 million, driven by the end of a major information technology project and reductions in personnel spending in the nonbudgeted Investment Division.

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Key Observations

- ***Share of Retiree Members Continues to Grow:*** Active membership in SRPS has remained flat as retired membership grows, putting more pressure on employer contributions to maintain system funding.

- ***Reinvestment Savings Contributions Stopped, Then Started:*** Due to the fiscal uncertainty created by the COVID-19 pandemic, the Department of Budget and Management (DBM) halted collection of the reinvestment savings portion of the pension contribution in fiscal 2021. Rates to be used for the fiscal 2022 contributions are based on no reinvestment savings contribution to the plan in fiscal 2021; however, DBM restarted collections in January.

- ***Internal Management of Funds Projected to Yield Significant Savings:*** SRA estimates that the internal management of funds will yield net savings of more than $65 million per year by fiscal 2024.

- ***Attainment of Reform Goals on Schedule:*** Pension reforms enacted in 2011 expected the system to be 73% funded in fiscal 2020; it was 72.9% funded.

Operating Budget Recommended Actions

1. Add a section to enact a $75 million, across-the-board reduction of the supplemental retirement contribution.

2. Adopt committee narrative requesting a report on Investment Division personnel budget information.

Budget Reconciliation and Financing Act Recommended Actions

1. Reduce fiscal 2021 spending by $75 million statewide due to not making supplemental reinvestment savings contributions.

Operating Budget Analysis

Program Description

The State Retirement Agency (SRA), under the direction of the 15-member Board of Trustees for the State Retirement and Pension System (SRPS), is responsible for administering the State's retirement and pension systems. The board-appointed executive director is responsible for policy development, legislation, and legal affairs. The agency has identified four fundamental goals for its operation:

- to prudently invest system assets in a well-diversified manner to optimize long-term returns while controlling risk through the excellence in execution of investment objectives and strategies of the system;
- to effectively communicate to all retirement plan participants the benefits provided by the system and to educate them about planning and preparing for all aspects of their defined benefit;
- to pay all retirement allowances provided by State pension law to the system's retirees and their beneficiaries in an accurate and timely manner; and
- to efficiently collect the required employer and employee contributions necessary to fund the system.

An administrative charge to all employers for whom the agency administers retiree benefits provides the revenue to fund the agency. In proportion to total system membership, administrative charge revenue from State agencies pays for roughly one-third of agency operations (represented as reimbursable funds), and revenue from local school boards and participating governmental units pay for the remaining two-thirds (represented as special funds). Based on the Governor's allowance and certified membership of 195,268, participating employers will pay approximately $138.54 per member in fiscal 2022; however, the final per member fee is based on actual expenditures. The agency is subject to a statutory spending cap of 0.22% of the active member payroll, retiree benefits, and compensation of vested former members, as codified by Chapters 723 and 724 of 2018. The calculated cap for fiscal 2022 is $40.2 million.

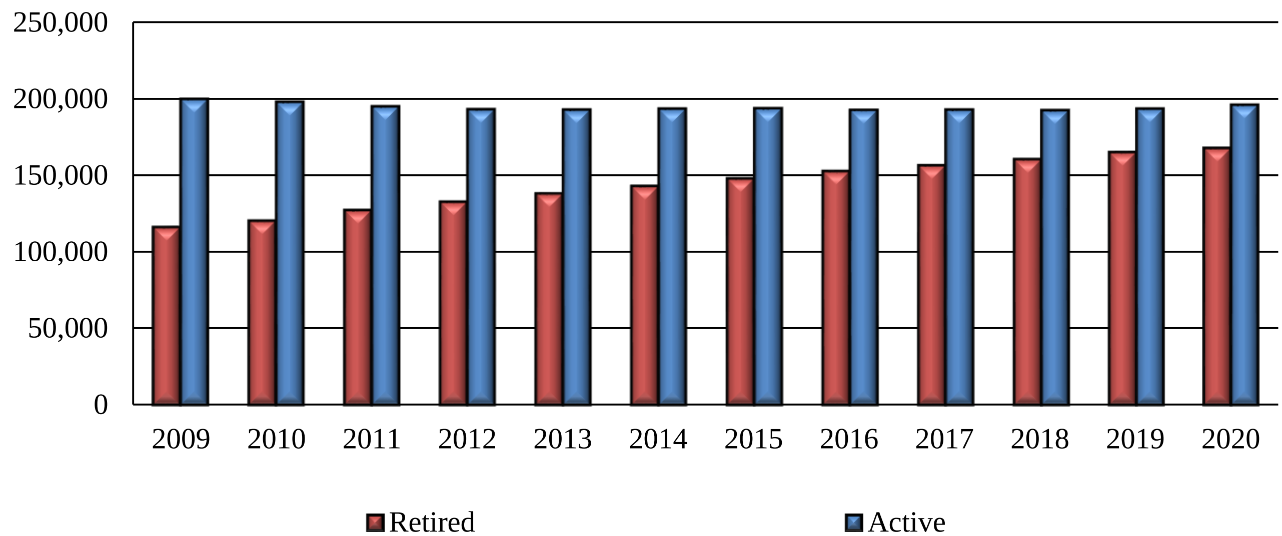
Chapters 727 and 728 of 2018 specified that compensation and other operational expenses for the Investment Division would be paid out of the accumulation of funds of the State's retirement systems (the "pension trust fund") instead of from special or reimbursable funds representing administrative fees collected from participating employers for agency expenses. This effectively took the division off budget starting in fiscal 2019, and costs associated with the Investment Division no longer count against SRA's expense cap.

Performance Analysis: Managing for Results

1. Retirees Increasing While Active Membership in State Pension Stays Flat

As shown in **Exhibit 1**, active membership in the State's retirement system has remained relatively flat since fiscal 2011, totaling 195,851 members in fiscal 2020. During this same time period, retired members have increased from 127,165 to 167,644, an increase of 4% annually. In fiscal 2020, retirees represent 46.1% of the State's pension plan participation. The flattening of active participation means that less payroll is supporting retiree benefits, resulting in higher employer contribution rates.

Exhibit 1
State Pension System Membership
Fiscal 2009-2020



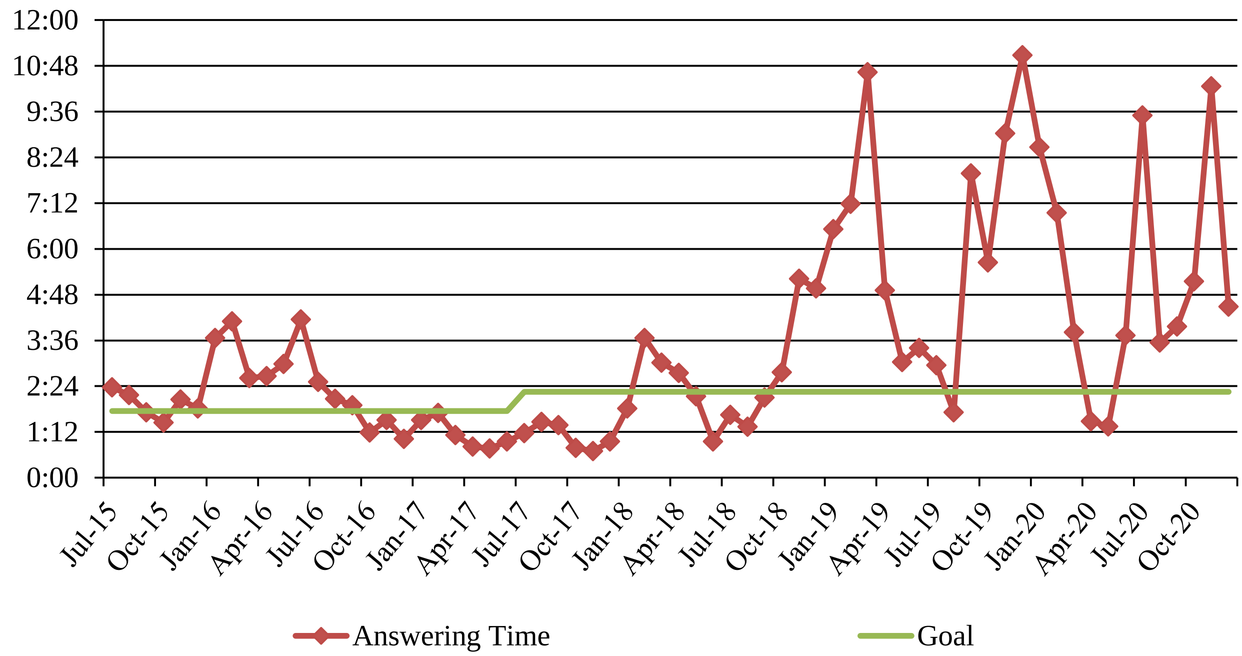
Source: State Retirement Agency

2. SRA Call Center Changes and Disruptions Lead to Long Wait Times

As the administrator of retirement benefits, SRA's performance measures focus on customer service that the agency provides to participants of the State's pension plans. After struggling for several years to meet its dual goals of fewer than 6% of calls being dropped and callers waiting no more than 1:45 minutes for a counselor to pick up their call, the agency raised its call center goals to no more than 7.5% of calls being dropped and callers waiting no more than 2:15 minutes, starting in fiscal 2018. In fiscal 2017, 5.4% of calls were dropped, and average wait times were shorter than 1:45 minutes, meeting the old goals. In fiscal 2018, 6.5% of calls were dropped, and wait times were 1:44 minutes, meeting the revised goals.

However, a combination of issues over the past two calendar years have driven up the number of dropped calls and the average wait time experienced by callers. In fiscal 2020, the system dropped 18.5% of calls and, as shown in **Exhibit 2**, several months saw long wait times.

Exhibit 2
Member Services Call Answering Time
July 2015 to December 2020



Source: Governor's Fiscal 2022 Budget Books; State Retirement Agency

In 2019, SRA had a combination of process and system changes and concerns over the State retiree prescription drug program led to several months of significant wait times. In 2020, reduced call volumes likely related to COVID-19 led to a reduction in wait times. However, volumes rebounded and, due to teleworking, call center staff are not able to handle as many calls as they are when in the office, leading to longer wait times in the second half of the year. Members made an average of 10,907 calls per month to the call center in fiscal 2020 – the numbers vary greatly by month, however, with February seeing 13,435 calls related to tax questions.

Fiscal 2021

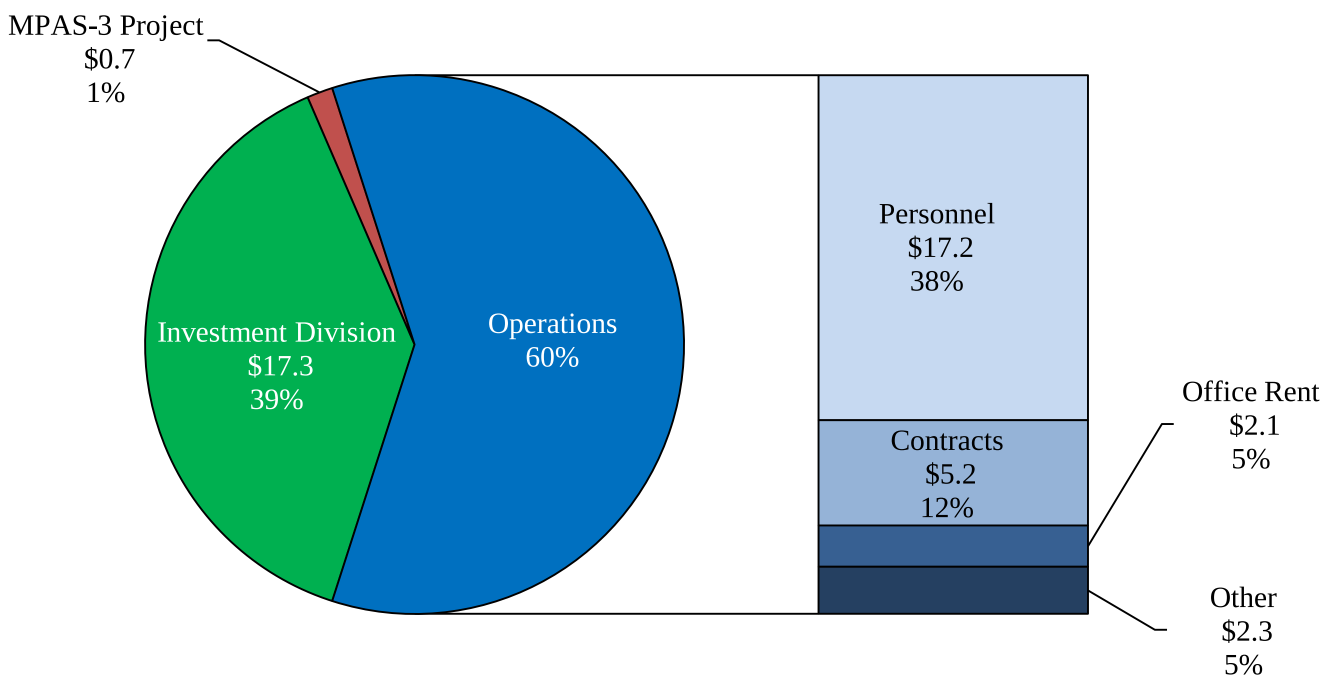
Cost Containment

The Board of Public Works reduced fiscal 2021 personnel costs by $22,136 as part of its cost containment actions in July 2020.

Fiscal 2022 Overview of Agency Spending

SRA's fiscal 2022 allowance totals $44.7 million and is comprised of three components: SRA operations (60%); the Investment Division (39%); and the major information technology (IT) project Maryland Pension Administration System (MPAS-3) (1%), as shown in **Exhibit 3**. Personnel makes up the largest share of costs in the SRA administration's budget.

Exhibit 3
Overview of Agency Spending
Fiscal 2022 Allowance
($ in Millions)



MPAS-3: Maryland Pension Administration System
SRA: State Retirement Agency

Source: Governor's Fiscal 2022 Budget Books

Proposed Budget Change

As shown in **Exhibit 4**, SRA's budget decreases by $3 million, or 6.3%, to $44.7 million. Cost reductions are driven by the near completion of the major IT project and decreases in the nonbudgeted Investment Division.

Exhibit 4
Proposed Budget
State Retirement Agency
($ in Thousands)

How Much It Grows:	Special Fund	Nonbudgeted Fund	Reimb. Fund	Total
Fiscal 2020 Actual	$19,977	$9,406	$9,840	$39,222
Fiscal 2021 Working Appropriation	19,419	18,838	9,490	47,747
Fiscal 2022 Allowance	18,503	17,251	8,986	44,741
Fiscal 2021-22 Amount Change	-$916	-$1,587	-$504	-$3,006
Fiscal 2021-22 Percent Change	-4.7%	-8.4%	-5.3%	-6.3%

Where It Goes:	Change
Personnel Expenses (Excluding Investment Division)	
Fiscal 2021 cost-of-living adjustment annualization	$175
Annual salary review	148
Regular and overtime earnings and additional assistance	71
Unemployment Insurance	33
Other fringe benefit adjustments	9
Turnover adjustments	4
Employee and retiree health insurance	-456
Abolished vacant position	-68
Retirement contributions	-45
Other Changes	
Incorrectly reported Investment Division changes	-1,587
Maryland Pension Administration System major information technology (IT) project	-1,203
One-time fiscal 2021 software costs related to IT project	-825
Other contractual costs	-192
Postage and telephone costs aligned with expectations	-130
New policy to carry fiduciary liability insurance	201
Office rent	251
Consulting contract costs related to IT project shifting to ongoing operating costs	645
Other	-37
Total	**-$3,006**

Note: Numbers may not sum to total due to rounding.

Personnel

Personnel costs, excluding the Investment Division, decline by $129,000, including adjustments. The abolition of 1 vacant position results in the savings of $68,000, and health insurance costs decline by $456,000. Those savings are partially offset by increases for the annualization of the January 2021 cost-of-living salary increase and the agency's portion of the annual salary review, which will apply to 36 SRA employees.

MPAS-3 Project

Costs for the MPAS-3 major IT project decline by $1.2 million to $693,160 in the fiscal 2022 allowance; it is anticipated that the project will be complete at the end of the fiscal year. The project is expected to total $19.4 million in costs and was intended to automate the business practices of the agency and provide real-time member account services. Functions include automated workflow, secure Internet transactions for members, new customer relationship and document management systems, and integration of existing systems.

Investment Division Personnel Costs Do Not Reflect Approved Budget

While data for the nonbudgeted Investment Division in the Governor's Fiscal 2022 Budget Books reflects a decline in spending of nearly $1.6 million, SRA indicates that the fiscal 2021 and 2022 appropriations do not accurately reflect personnel costs approved by Board of Trustees. Overall, the fiscal 2022 budget increases by $106,197 compared to the fiscal 2021 working appropriation. Personnel costs increase by $648,913, as the division moves toward salary targets set by the board. Those increases are offset by an approximately $548,000 reduction in contractual services, primarily related to reductions in spending on private equity consulting services. **The Department of Legislative Services (DLS) recommends the adoption of committee narrative requesting a report providing Board of Trustees-approved personnel costs by subobject if different than what is reported in the Governor's Budget Books.**

Personnel Data

	FY 20 Actual	FY 21 Working	FY 22 Allowance	FY 21-22 Change
Regular Positions	202.00	216.00	215.00	-1.00
Contractual FTEs	12.66	8.00	8.00	0.00
Total Personnel	**214.66**	**224.00**	**223.00**	**-1.00**

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions		14.67	7.12%	
Positions and Percentage Vacant as of 12/31/20		25.00	11.57%	
Vacancies Above Turnover		10.33		

- SRA abolished 1 position that had been vacant since June 2018; the position was a project manager related to the implementation of the MPAS-3 project.

- There are 25 vacancies at SRA, a rate of 11.57%. Eight positions have been vacant for longer than one year.

- Of the 215 regular positions in the fiscal 2022 allowance, 41 are in the nonbudgeted Investment Division, unchanged from fiscal 2021.

Issues

1. Reinvestment Contribution Collection Stopped, Then Started

The pension reforms of 2011 included plans to provide an annual supplemental contribution to the plan based on the anticipated savings generated by the increase in member contributions and other changes that reduced benefits for employees hired after 2011. Since fiscal 2016, the mandated reinvestment savings contribution has been $75 million per year; that amount is provided via an increase in the actuarially determined rates so that the additional $75 million is generated.

Due to the fiscal uncertainty created by the COVID-19 pandemic, the Department of Budget and Management (DBM) informed the Central Payroll Bureau (CPB) at the Comptroller to not collect the reinvestment savings portion of the pension contribution in fiscal 2021. In recognition of this action, the actuaries calculated the rates to be used for the fiscal 2022 contributions based on no reinvestment savings contribution to the plan in fiscal 2021. DBM informed CPB to restart the collection of the supplemental contribution in January at double the rate in order to collect the full year's amount, despite the rates adopted by SRPS and the potential for legislative action during the 2021 session. The fiscal 2022 allowance does include funding for the supplemental contribution.

As the State's pension plan remains in line with funding goals and in recognition of fiscal needs in other areas of the State budget, DLS recommends adding a provision to the Budget Reconciliation and Financing Act (BRFA) to reduce the fiscal 2021 working appropriation by $75 million across State agencies and a section to the budget bill reducing the fiscal 2022 allowance by $75 million across all State agencies.

2. Internal Management of Funds Projected to Yield Significant Savings

Chapters 727 and 728 granted the Board of Trustees authority to set compensation and establish positions within the Investment Division subject to certain limitations in order to reduce compensation-related turnover, improve recruitment, and to allow externally managed assets to be moved to internal management in order to reduce fees paid for asset management. The legislation specified that compensation and other operational expenses for the Investment Division would be paid out of the accumulation of funds of the pension trust fund instead of from special or reimbursable funds representing administrative fees collected from participating employers for agency expenses. This effectively took the division off budget starting in fiscal 2019.

The budget committees in the 2020 *Joint Chairmen's Report* requested that SRA provide a report detailing the expenses of the Investment Division compared to cost savings from not procuring comparable contractual services from outside the agency. A 2017 study of internal management of funds anticipated $215 million in annual savings to the system once internal management was fully built out.

Exhibit 5 shows SRA's estimates of the increase in expenses related to internal management compared to the reduction in fee expenses due to reducing external manager costs. Expenses are expected to be more than $12 million higher annually by fiscal 2024 than in fiscal 2017, the baseline used for this report, primarily due to personnel costs. Existing staff are receiving compensation increases rolled out at 10% per year; staff is being added to address understaffing, and other staff is being added to support the internal management of funds. Offsetting those expenses are savings from fees expected to exceed $65 million by fiscal 2024 compared to 2017 costs. Fee savings are in two categories: the internal management of funds; and the increase of co-investment, which is a minority investment in a private equity fund at lower cost than for larger investors.

Exhibit 5
Estimated Investment Division Impact on Costs and Fees
Fiscal 2019-2024 Est.
($ in Millions)

	2019	2020	2021	2022	2023	2024
Increased Expenses						
Salary Increases for Existing Staff	n/a	$1.13	$1.75	$2.38	$3.00	$3.00
Add Staff to Address Understaffing	$1.80	2.01	2.05	2.26	2.30	2.34
Additional Staff to Support Internal Management	n/a	n/a	1.61	1.66	2.85	3.72
Additional Services	0.43	0.71	1.56	1.93	2.31	3.19
Total Increase in Expenses	***$2.23***	***$3.85***	***$6.97***	***$8.23***	***$10.46***	***$12.25***
Fee Savings						
Due to Internal Management of Public Assets	n/a	$0.32	$3.00	$13.00	$17.00	$41.00
Due to Co-investment	$7.70	10.80	12.95	16.45	20.38	24.76
Total Fee Savings	***$7.70***	***$11.12***	***$15.95***	***$29.45***	***$37.38***	***$65.76***
Net Impact	**-$5.47**	**-$7.27**	**-$8.98**	**-$21.22**	**-$26.92**	**-$53.51**

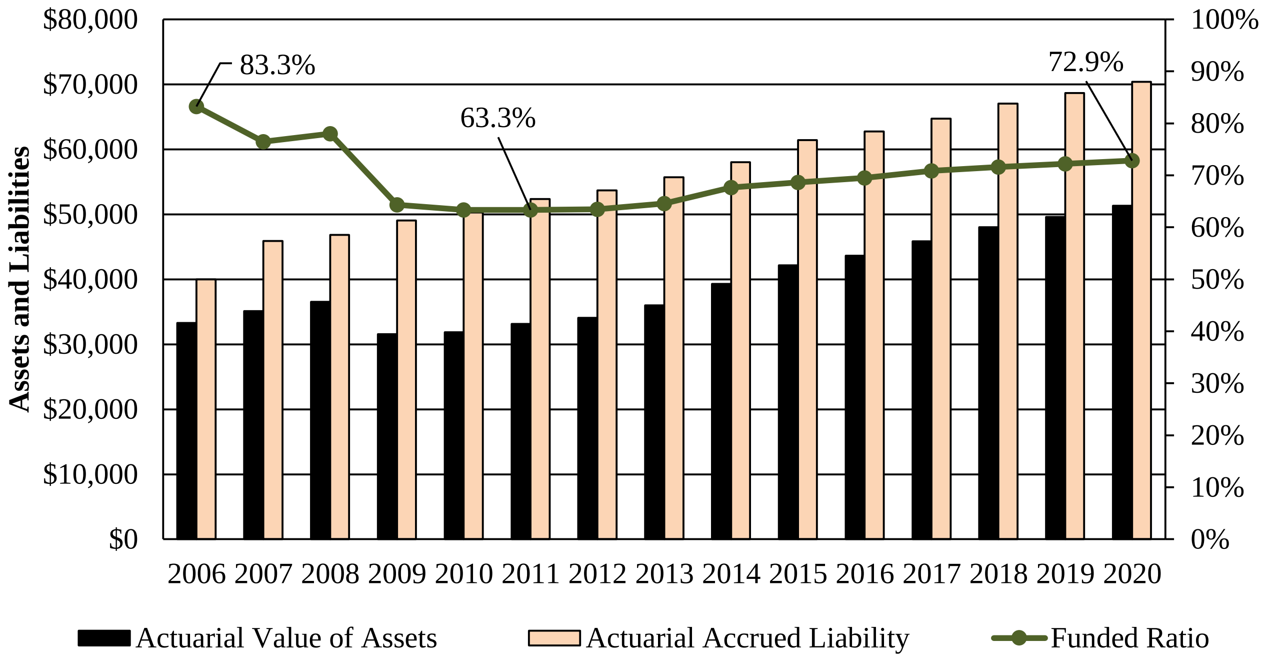
Note: All figures relative to actual fiscal 2017 costs.

Source: State Retirement Agency

3. SRPS Meeting Reform Expectations

In 2011, the General Assembly passed the comprehensive pension reform (Chapter 397) aimed at addressing the long-term sustainability of the State's defined benefit pension plans and the affordability of the State's contributions to those plans. At that time, SRPS had only 64% of assets necessary to cover its liability. Based on the reforms and supplemental funding, SRPS is projected to achieve 80% actuarial funding by fiscal 2028. As shown in **Exhibit 6**, the actual funded ratio in fiscal 2020 was 72.9% for all State plans, slightly below the 2010 valuation's anticipation of 73% funding with the enactment of reforms.

Exhibit 6
State Plans' Pension Assets, Liabilities, and Funded Ratio
Fiscal 2006-2020
($ in Millions)

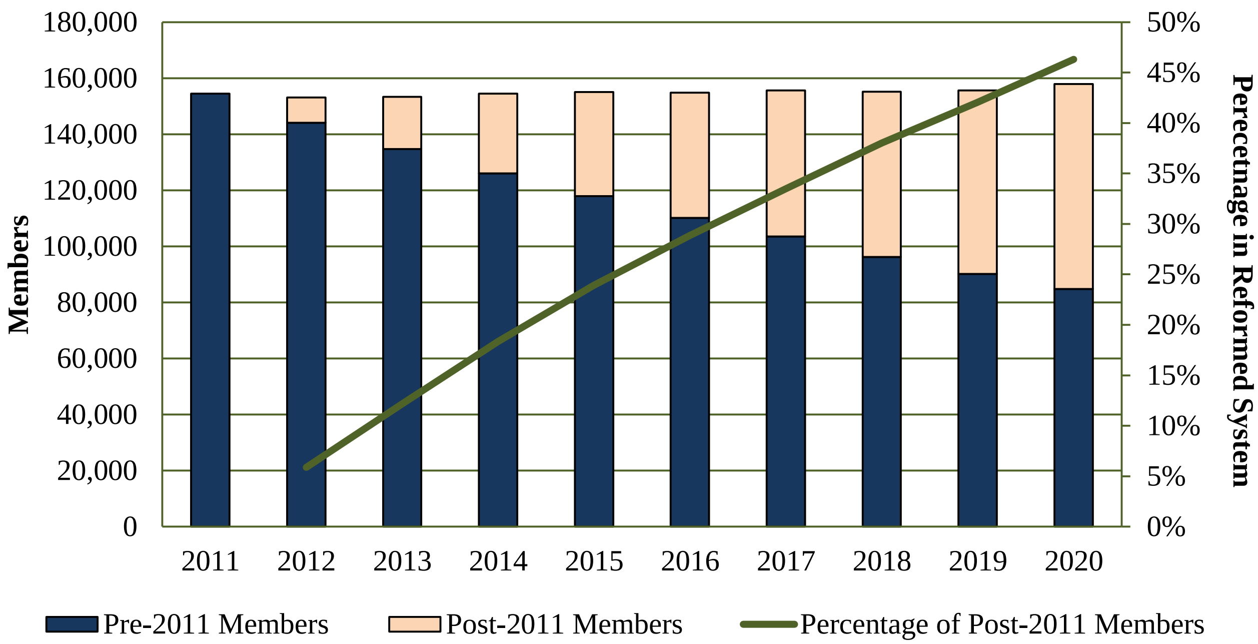


Source: State Retirement Agency

Other legislative actions have also resulted in a positive impact on the funded status of the State's retirement system. Chapter 489 of 2015 accelerated the repeal of the corridor funding method (enacted during the 2002 legislative session) to fiscal 2017 that effectively restored full actuarial funding. Chapter 489 also required that, from fiscal 2017 to 2020, 50% of any budget surplus would be provided as additional contributions to the pension system (known as the pension sweeper) up to $50 million, but fiscal 2017 is the only year that payment was made. Chapter 557 of 2017 further modified the pension sweeper so that, beginning in fiscal 2021 and continuing until the State's retirement systems are 85% actuarially funded (currently projected to be fiscal 2032), 25% of any budget surplus in excess of $10 million, up to a maximum of $25 million, is to be transferred into SRPS as a supplemental payment. The BRFA of 2021 includes language to eliminate the $25 million pension sweeper for fiscal 2022. **Appendix 2** provides the funding history of SRPS from fiscal 2014 to 2021, including supplemental and pension sweeper payments.

Due to employee turnover, 46.3% of members in the Teachers' Pension System/Employees' Pension system are in the reformed pension system as of fiscal 2020, as shown in **Exhibit 7**. Per Chapter 397, all members hired on or after July 1, 2011, are part of the reformed pension system that requires a longer vesting period (10 years instead of 5 years) and provides a less generous benefit calculation. Increasing membership in the reformed pension system results in a positive impact on the State's pension liabilities due to fewer employees vesting and reduced future benefits for employees who do vest. Employees who leave the State's service without vesting receive their contributions and a guaranteed return on their contributions (5%), but the State's contributions for the employee stay in the system.

Exhibit 7
Pre- and Post-2011 Pension Reform Members State Employees' and Teachers' Retirement Systems
Fiscal 2011-2020



Source: State Retirement Agency

Investment Performance

The system's investment return for fiscal 2020 was 3.57% net of management fees, failing to exceed the assumed rate of return in two of the last three years. The system did exceed its policy benchmarks for the system as a whole, driven by returns in the growth equity and rate sensitive asset classes. System performance was driven primarily by growth equity returns, which made up 50.4% of the portfolio and returned 2.09% for the fiscal year, which was 2.48 percentage points (248 basis points) above its benchmark. The system was able to weather the volatility introduced into markets with the spread of the COVID-19 pandemic and the interruption of economic activity resulting from public health measures taken to curb the spread of the virus. For the period ending March 31, 2020, the system experienced significant losses of -6.41% in that one-month period, bringing the fiscal year return through that date down to -3.55% and total assets down to $51.1 billion. The system did participate in the market rebounds, returning 4.47% for the month of April, 0.77% in May, and 1.88% in June. As shown in **Exhibit 8**, the system's assets totaled $54.8 billion as of June 30, 2020, which was an increase over the $54.2 billion in assets at the end of fiscal 2019.

Exhibit 8
State Retirement and Pension System of Maryland
Fund Investment Performance for Periods Ending June 30, 2020
($ in Millions)

			Time Weighted Total Returns		
	Assets	**% Total**	**1 Year**	**5 Years**	**10 Years**
Growth Equity					
Public Equity	$19,788	35.60%	2.00%	5.96%	9.23%
Private Equity	7,803	14.20%	2.46%	12.27%	13.69%
Subtotal	***$27,590***	***50.40%***	***2.09%***	***7.34%***	***10.14%***
Rate Sensitive					
Nominal Fixed Income	$7,733	14.10%	20.64%	7.67%	5.88%
Inflation Sensitive	2,454	4.50%	8.95%	4.01%	3.87%
Subtotal	***$10,186***	***18.60%***	***18.10%***	***6.82%***	***5.46%***
Credit/Debt	**$5,117**	**9.30%**	**-0.43%**	**4.05%**	**6.00%**
Real Assets					
Real Estate	$4,607	8.40%	1.31%	6.88%	10.42%
Natural Resources and Infrastructure	1,844	3.40%	-19.14%	n/a	n/a
Subtotal	***$6,473***	***11.80%***	***-5.42%***	***2.08%***	***2.74%***
Absolute Return	**$4,290**	**7.80%**	**-2.47%**	**0.77%**	**2.74%**
Multi Asset	**$841**	**1.50%**	**2.93%**	**n/a**	**n/a**
Cash and Cash Equitization	**$270**	**0.50%**	**0.85%**	**5.39%**	**3.99%**
Total Fund	**$54,767**	**100%**	**3.57%**	**5.80%**	**7.57%**

Note: Returns beyond one year are annualized. Returns are net of fees.

Source: State Street – State Retirement Agency of Maryland – Rates of Return – Net Mgr – Periods Ending June 30, 2020

As shown in **Exhibit 9**, the system as a whole performed 0.43% (43 basis points) above the benchmark. The growth equity and rate sensitive asset classes achieved returns in excess of their benchmarks, while the remaining asset classes all performed below their respective benchmarks. The rate sensitive asset class was the only asset class to return above the system's assumed rate of return of 7.40%. The system's private equity assets had the most significant return relative to its benchmark, outperforming the benchmark of -1.94% with a return of 2.46%.

Exhibit 9
Benchmark Performance
Fiscal 2020

	Return	Return Benchmark	Excess
Growth Equity	**2.09%**	**-0.39%**	**2.48%**
Public Equity	2.00%	0.36%	1.64%
Private Equity	2.46%	-1.94%	4.41%
Rate Sensitive	**18.10%**	**17.15%**	**0.94%**
Nominal Fixed Income	20.64%	19.34%	1.30%
Inflation Sensitive	8.95%	8.74%	0.22%
Credit	**-0.43%**	**-0.06%**	**-0.37%**
Real Assets	**-5.42%**	**-2.30%**	**-3.12%**
Real Estate	1.31%	3.24%	–1.93%
Natural Resources and Infrastructure	-19.14%	-14.25%	-4.89%
Absolute Return	**-2.47%**	**0.61%**	**-3.07%**
Multi Asset	**2.93%**	**3.14%**	**-0.22%**
Cash and Cash Equitization	**0.85%**	**1.56%**	**-0.71%**
Total Fund	**3.57%**	**3.14%**	**0.43%**

Note: Columns may not add to total due to rounding.

Source: State Street – State Retirement Agency of Maryland – Rates of Return – Net Mgr – Periods Ending June 30, 2020

One method of evaluating the system's investment performance is to compare the system's investment performance with the performance of other systems. The Wilshire Trust Universe Comparison Service (TUCS) rankings are useful for providing a big picture, snapshot assessment of the system's performance relative to other large public pension plans. In the TUCS analysis, the one-hundredth percentile represents the lowest investment return, and the first percentile is the highest investment return. According to TUCS, the system's fiscal 2020 total fund investment performance was rated in the fifty-third percentile among the public pension funds with at least $25 billion in assets, as shown in **Exhibit 10**. As the system has historically had a low allocation to equity investments compared to its peers – and domestic equity in particular – the system's investment policy will have a low TUCS ranking when equity markets are experiencing strong performance, as has been the case for a number of recent years. The long-term relative performance rankings have placed SRPS' relative total fund performance in the bottom quartile, with improvement in recent years. The TUCS rankings are based on returns gross of fees.

Exhibit 10
TUCS Percentile Rankings for Periods Ending June 30
Fiscal 2017-2020

	2017	2018	2019	2020
1 Year	95	75	60	53
3 Years	91	94	92	60
5 Years	87	84	88	71
10 Years	100	94	87	87

TUCS: Wilshire Trust Universe Comparison Services

Note: Rankings are for systems greater than $25 billion.

Source: Wilshire Trust Universe Comparison Service

The system's low TUCS ranking is largely due to the lower allocation to public equities, especially U.S. equities, in comparison to its peers. Low TUCS rankings should be expected during times when public equity markets experience strong growth as was the case in fiscal 2017 and 2018. The Board of Trustees for SRPS is responsible for setting the allocation of assets to each investment class and monitoring the appropriateness of the allocation in light of investment objectives. The asset allocation is structured into the following categories:

- ***Growth Equity:*** public equity (domestic, international developed, and international emerging markets) and private equity investments;
- ***Rate Sensitive:*** long-term governmental bonds, securitized bonds, corporate bonds, and inflation-linked bonds;
- ***Credit:*** high yield bonds and bank loans and emerging market debt;

- ***Real Assets:*** real estate and natural resources and infrastructure investments; and

- ***Absolute Return:*** consists of investments that are expected to exceed U.S. treasuries with low correlation to public stocks.

Exhibit 11 shows the current allocation of the plan's funds by class.

Exhibit 11
Allocation of Plan Funds
Fiscal 2020

Asset Class	Target Allocation	Actual June 30, 2020
Growth/Equity	50.00%	50.40%
Rate Sensitive	19.00%	18.60%
Credit	9.00%	9.30%
Real Assets	14.00%	11.80%
Absolute Return	8.00%	7.80%
Multi Asset	0.00%	1.50%
Cash and Cash Equitization	0.00%	0.50%
Total Fund	**100.00%**	**100.00%**

Source: State Retirement Agency of Maryland – Quarterly Investment Update – Period Ending June 30, 2020

Operating Budget Recommended Actions

1. Add the following language:

Section XX Supplemental Retirement Contribution

SECTION XX. AND BE IT FURTHER ENACTED, that in fiscal 2022 the Governor, Chief Judge, and Presiding Officers shall reduce the amount of supplemental retirement contributions by the following amounts:

General Funds – Executive Branch:	$61,280,773
General Funds – General Assembly:	$323,894
General Funds – Judiciary:	$1,395,333
Special Funds:	$6,000,000
Federal Funds:	$6,000,000

The Governor shall allocate the statewide reduction to the supplemental retirement contributions across all State agencies. The Department of Budget and Management shall provide a schedule of the statewide reduction allocation to the budget committees and the Department of Legislative Services by June 15, 2021.

Explanation: This action eliminates a supplemental retirement contribution above the actuarially determined rates for fiscal 2022.

2. Adopt the following narrative:

Investment Division Personnel Costs: Chapters 727 and 728 of 2018 allowed for the Investment Division to be moved off budget. With that change, Investment Division personnel costs reported with the Governor's allowance have been inconsistent with the budget approved by the State Retirement Agency's (SRA) Board of Trustees. The budget committees request that SRA provide a report that includes accurate personnel costs in the budget by subobject. The report should include fiscal 2019, 2020, and 2021 actual spending; the fiscal 2022 working appropriation; and the fiscal 2023 allowance.

Information Request	**Author**	**Due Date**
Investment Division personnel costs	SRA	With submission of Governor's Budget Books

Budget Reconciliation and Financing Act Recommended Actions

1. Reduce fiscal 2021 spending by $75 million statewide due to not making supplemental reinvestment savings contributions.

Appendix 1
2020 *Joint Chairmen's Report* Responses from Agency

The 2020 *Joint Chairmen's Report* (JCR) requested that the State Retirement Agency (SRA) prepare one report. Electronic copies of the full JCR responses can be found on the Department of Legislative Services Library website.

- ***Cost Savings of Moving the Investment Division Off Budget:*** SRA estimates that the internal management of funds will yield net savings of more than $65 million per year by fiscal 2024. Further discussion of this issue can be found in Issue 2 of this analysis.

Appendix 2
State Pension Contributions
Fiscal 2014-2022
($ in Millions)

	2014	2015	2016	2017	2018	2019	2020	2021	2022
State Employer Base*	$1,319.4	$1,388.6	$1,440.1	$1,533.8	$1,547.5	$1,569.8	$1,627.7	$1,669.6	$ 1,736.6
Supplemental*	100.0	100.0	75.0	75.0	75.0	75.0	75.0	75.0	75.0
Sweeper	0.0	0.0	0.0	50.0	0.0	0.0	0.0	0.0	0.0
Governor	0.0	0.0	0.0	25.0	0.0	0.0	0.0	0.0	0.0
Total State	**$1,419.4**	**$1,488.6**	**$1,515.1**	**$1,683.8**	**$1,622.5**	**$1,644.8**	**$1,702.7**	**$1,744.6**	**$1,811.6**
Local School Boards	$173.2	$221.6	$254.8	$279.8	$280.5	$283.8	$288.6	$293.8	$296.5
Total Employer	**$1,592.6**	**$1,710.2**	**$1,769.9**	**$1,963.6**	**$1,903.0**	**$1,928.6**	**$1,991.3**	**$2,038.4**	**$2,108.1**

* The fiscal 2021 supplemental contribution was budgeted but not provided to the State Retirement Agency for the first six months of the fiscal year; the fiscal 2022 base rate assumed no supplemental contribution in fiscal 2021

Source: State Retirement Agency; Department of Legislative Services

Appendix 3
Business Process Reengineering and Support Technology (MPAS-3)
Major Information Technology Project
State Retirement Agency

New/Ongoing: Ongoing								
Start Date: July 1, 2018				**Est. Completion Date:** June 2022				
Implementation Strategy: Agile								
($ in Millions)	**Prior Year**	**2021**	**2022**	**2023**	**2024**	**2025**	**Remainder**	**Total**
SF	$11.165	$1.273	$0.457	$0.000	$0.000	$0.000	$0.000	**$12.895**
RF	5.676	0.623	0.236	0.000	0.000	0.000	0.000	**6.535**
Total	**$16.841**	**$1.896**	**$0.693**	**$0.000**	**$0.000**	**$0.000**	**$0.000**	**$19.429**

- ***Project Summary:*** This project is the third of three phases; the first began in 2006. The Maryland Pension Administration System (MPAS-3) will automate the business practices of the agency and provide real-time member account services. Functions will include automated workflow, secure Internet transactions for members, new customer relationship and document management systems, and integration of existing systems.

- ***Need:*** Prior to MPAS-3, business operations were paper intensive, and members were unable to review records or make transactions online. An independent pension plan assessment organization found that improvements made with MPAS-3 would bring the State Retirement Agency in line with benchmarks against peer organizations.

- ***Observations and Milestones:*** The customer relationship management portion of the project went live in August 2019, and the secure member Internet portal (mySRPS) went live in February 2020. An in-house document management and storage application went live in summer 2019. The estimated completion date of the project is June 2022.

Appendix 4
Object/Fund Difference Report
State Retirement Agency

Object/Fund	FY 20 Actual	FY 21 Working Appropriation	FY 22 Allowance	FY 21 - FY 22 Amount Change	Percent Change
Positions					
01 Regular	176.00	175.00	174.00	-1.00	-0.6%
02 Contractual	12.66	8.00	8.00	0.00	0%
Total Positions	**188.66**	**183.00**	**182.00**	**-1.00**	**-0.5%**
Objects					
01 Salaries and Wages	$ 16,324,272	$ 17,169,896	$ 16,718,109	-$ 451,787	-2.6%
02 Technical and Spec. Fees	880,636	725,609	711,779	-13,830	-1.9%
03 Communication	701,992	883,800	753,800	-130,000	-14.7%
04 Travel	30,649	105,297	83,497	-21,800	-20.7%
06 Fuel and Utilities	6,503	0	0	0	0.0%
07 Motor Vehicles	147,260	128,560	128,060	-500	-0.4%
08 Contractual Services	8,631,146	7,514,236	5,940,007	-1,574,229	-20.9%
09 Supplies and Materials	149,252	102,810	113,421	10,611	10.3%
10 Equipment – Replacement	41,479	75,100	75,020	-80	-0.1%
11 Equipment – Additional	526,972	37,604	35,000	-2,604	-6.9%
12 Grants, Subsidies, and Contributions	382,426	160,606	160,606	0	0%
13 Fixed Charges	1,994,340	1,890,902	2,332,472	441,570	23.4%
Total Objects	**$ 29,816,927**	**$ 28,794,420**	**$ 27,051,771**	**-$ 1,742,649**	**-6.1%**
Funds					
03 Special Fund	$ 19,977,131	$ 19,329,009	$ 18,210,176	-$ 1,118,833	-5.8%
09 Reimbursable Fund	9,839,796	9,465,411	8,841,595	-623,816	-6.6%
Total Funds	**$ 29,816,927**	**$ 28,794,420**	**$ 27,051,771**	**-$ 1,742,649**	**-6.1%**

Note: The fiscal 2021 appropriation does not include deficiencies, targeted revenues, or across-the-board reductions. The fiscal 2022 allowance does not include contingent reductions or cost-of-living adjustments.

Appendix 5
Fiscal Summary
State Retirement Agency

Program/Unit	FY 20 Actual	FY 21 Wrk Approp	FY 22 Allowance	Change	FY 21 - FY 22 % Change
01 State Retirement Agency	$ 23,824,286	$ 26,898,420	$ 26,358,611	-$ 539,809	-2.0%
02 Major Information Technology Development Projects	5,992,641	1,896,000	693,160	-1,202,840	-63.4%
Total Expenditures	**$ 29,816,927**	**$ 28,794,420**	**$ 27,051,771**	**-$ 1,742,649**	**-6.1%**
Special Fund	$ 19,977,131	$ 19,329,009	$ 18,210,176	-$ 1,118,833	-5.8%
Total Appropriations	**$ 19,977,131**	**$ 19,329,009**	**$ 18,210,176**	**-$ 1,118,833**	**-5.8%**
Reimbursable Fund	$ 9,839,796	$ 9,465,411	$ 8,841,595	-$ 623,816	-6.6%
Total Funds	**$ 29,816,927**	**$ 28,794,420**	**$ 27,051,771**	**-$ 1,742,649**	**-6.1%**

Note: The fiscal 2021 appropriation does not include deficiencies, targeted revenues, or across-the-board reductions. The fiscal 2022 allowance does not include contingent reductions or cost-of-living adjustments.