

G50L00

Maryland Supplemental Retirement Plans

Program Description

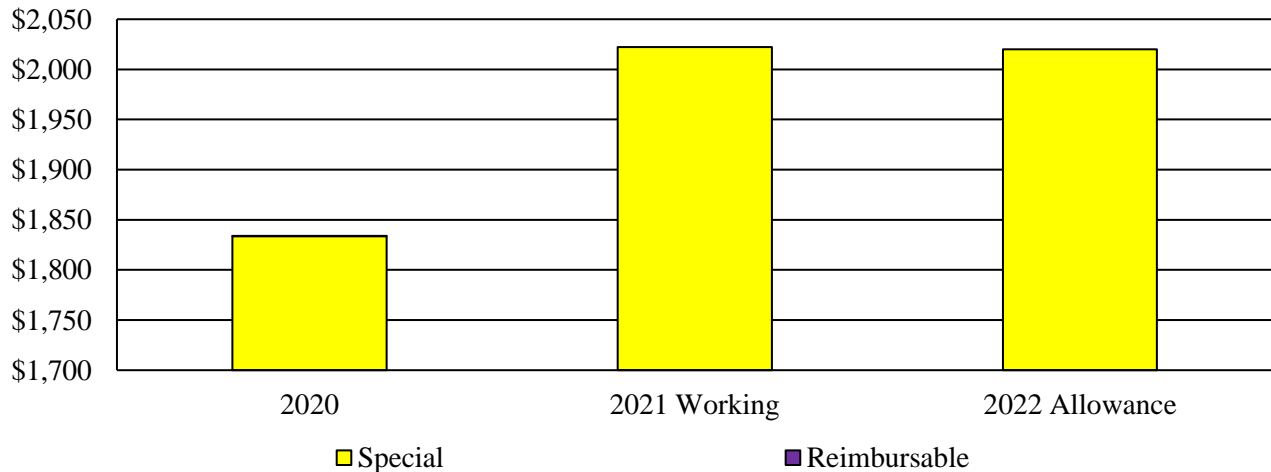
The Teachers' and State Employees' Supplemental Retirement Plans are administered by a board of trustees, as established in Title 35 of the State Personnel and Pensions Article. The board has responsibility over four plan options, which can be found in **Appendix 1**.

The Maryland Supplemental Retirement Plans (MSRP) staff supports the board of trustees' work in selecting investment options and overseeing operations. MSRP staff also provides educational programs and information to State employees and human resources personnel. These efforts are designed to create awareness among State employees of the need and mechanisms available to save for their own retirement.

MSRP finances operations through a fee imposed on members' accounts based on a percentage of assets in the plans and a flat-rate monthly charge. The board fee, effective October 1, 2020, is currently composed of a 0.0425% asset fee and a monthly per account charge of \$0.50 on every account with at least \$500 (except for 401(a) match plan accounts). The board contracts with Nationwide Retirement Solutions, Inc. (Nationwide) for plan administration. The Nationwide contract requires a management fee of 0.0775% of assets. Therefore, the reported total participant fee is 0.12% of plan assets and a \$0.50 charge on specified accounts.

Operating Budget Summary

Fiscal 2022 Budget Decreases \$2,300, or 0.1%, to \$2 Million
(\$ in Thousands)



Note: The fiscal 2021 appropriation includes general salary increases. The fiscal 2022 allowance includes the annual salary review and the annualization of general salary increases.

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Fiscal 2021

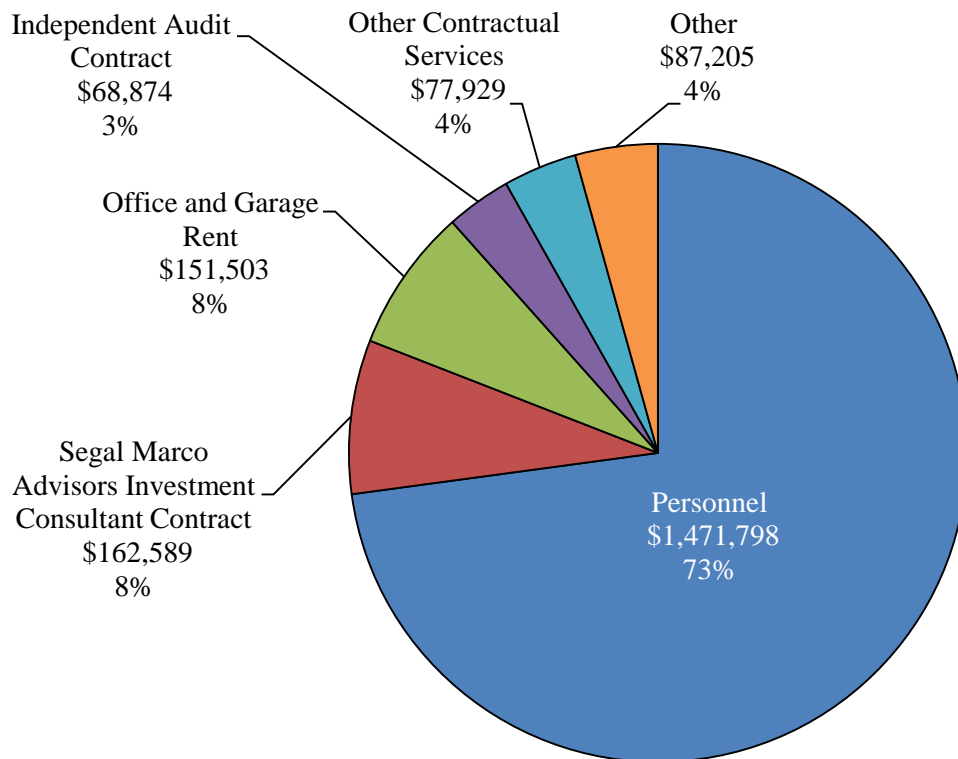
Cost Containment

The Board of Public Works reduced personnel costs at MSRP by \$2,767 in special funds.

Fiscal 2022 Overview of Agency Spending

As shown in **Exhibit 1**, nearly three-quarters of MSRP’s fiscal 2022 allowance is for agency personnel costs. Other large costs include funding for office and garage leases (7.5%) and contractual services (15.3%). MSRP’s two largest contracts are for investment consulting with Segal Marco Advisors and for an independent audit.

Exhibit 1
Overview of Agency Spending
Fiscal 2022 Allowance



Source: Governor’s Fiscal 2022 Budget Books

Proposed Budget Change

The adjusted fiscal 2022 allowance decreases by \$2,348, or 0.1%, as shown in **Exhibit 2**.

Exhibit 2
Proposed Budget
Maryland Supplemental Retirement Plans
(\$ in Thousands)

| How Much It Grows: | <u>Special</u> <u>Fund</u> | <u>Reimb.</u> <u>Fund</u> | <u>Total</u> |
|-----------------------------------|---------------------------------------|--------------------------------------|---------------------|
| Fiscal 2020 Actual | \$1,834 | \$0 | \$1,834 |
| Fiscal 2021 Working Appropriation | 2,022 | 0 | 2,022 |
| Fiscal 2022 Allowance | <u>2,020</u> | <u>0</u> | <u>2,020</u> |
| Fiscal 2021-2022 Amount Change | -\$2 | \$0 | -\$2 |
| Fiscal 2021-2022 Percent Change | -0.1% | | -0.1% |

Where It Goes:

Personnel Expenses

| | |
|---|------|
| Regular earnings | -\$5 |
| January 2021 cost of living annualization | 13 |
| Annual salary review | 10 |
| Employee and retiree health insurance | -22 |
| Workers' compensation premium assessment | -7 |
| Other fringe benefit adjustments | -1 |

Other Changes

| | |
|----------------------------|---|
| Contractual services | 6 |
| Other changes | 4 |

Total **-\$2**

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

Personnel Data

| | <u>FY 20</u> <u>Actual</u> | <u>FY 21</u> <u>Working</u> | <u>FY 22</u> <u>Allowance</u> | <u>FY 21-22</u> <u>Change</u> |
|------------------------|---|--|--|--|
| Regular Positions | 13.00 | 14.00 | 14.00 | 0.00 |
| Contractual FTEs | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> |
| Total Personnel | 13.00 | 14.00 | 14.00 | 0.00 |

Vacancy Data: Regular Positions

| | | |
|---|------|--------|
| Turnover and Necessary Vacancies, Excluding New Positions | 0.15 | 1.04% |
| Positions and Percentage Vacant as of 12/31/20 | 2.00 | 14.29% |
| Vacancies Above Turnover | 1.85 | |

Key Observations

1. Investments Meet Benchmarks, Reserve Balance Continues Growth

As shown in **Exhibit 3**, MSRP options slightly exceeded benchmarks in fiscal 2020 for all but the one-year period. In the past five fiscal years, MSRP options have generally met or outperformed plan benchmarks.

Exhibit 3
MSRP Average Rates of Return
Fiscal 2015-2020

| | <u>1 Year</u> | <u>3 Years</u> | <u>5 Years</u> | <u>10 Years</u> |
|---|---------------|----------------|----------------|-----------------|
| Annual Average Rates of Return as of June 30, 2020 | | | | |
| Maryland Supplemental Retirement Plans (MSRP) Options | 6.2% | 9.7% | 6.9% | 10.1% |
| Benchmark Indices | 6.5% | 9.6% | 6.7% | 10.0% |
| Annual Average Rates of Return as of June 30, 2019 | | | | |
| MSRP Options | 6.6% | 10.3% | 6.9% | 11.0% |
| Benchmark Indices | 6.7% | 10.2% | 6.9% | 10.7% |
| Annual Average Rates of Return as of June 30, 2018 | | | | |
| MSRP Options | 10.1% | 8.0% | 9.5% | 8.1% |
| Benchmark Indices | 9.8% | 7.9% | 9.2% | 7.7% |
| Annual Average Rates of Return as of June 30, 2017 | | | | |
| MSRP Options | 14.5% | 6.0% | 10.4% | 6.2% |
| Benchmark Indices | 14.1% | 5.9% | 10.2% | 5.7% |
| Annual Average Rates of Return as of June 30, 2016 | | | | |
| MSRP Options | -0.3% | 7.6% | 7.5% | 6.4% |
| Benchmark Indices | 0.5% | 7.6% | 7.6% | 6.1% |
| Annual Average Rates of Return as of June 30, 2015 | | | | |
| MSRP Options | 3.6% | 13.0% | 12.6% | 7.6% |
| Benchmark Indices | 3.8% | 12.7% | 12.6% | 7.0% |

MSRP: Maryland Supplemental Retirement Plans

Source: Governor’s Fiscal 2022 Budget Books

Exhibit 4 compares MSRP investment performance with benchmark indices as of September 2020. Two large cap stock funds – American Century Equity Growth and American Funds Growth – underperformed benchmark indices in all time periods. T. Rowe Price Mid-Cap Value also underperformed in all time periods. Underperformance of a fund may put a fund on watch but does not necessarily result in removal. Long-term performance is prioritized over short-term results.

Exhibit 4
MSRP Investment Performance
Compared with Benchmark Indices
As of September 2020

| | <u>1-year</u> | <u>3-year</u> | <u>5-year</u> | <u>10-year</u> |
|---|---------------|---------------|---------------|----------------|
| Bond Funds | | | | |
| TCW Core Fixed Income Fund I | ✓ | ✓ | ✗ | ✓ |
| Balanced Funds | | | | |
| Fidelity Puritan Fund | ✗ | ✗ | ✗ | ✓ |
| T. Rowe Price Retirement Balanced | ✗ | ✗ | ✗ | ✓ |
| Large Cap Stock Funds | | | | |
| Parnassus Core Equity | ✓ | ✓ | ✓ | ✓ |
| American Century Equity Growth | ✗ | ✗ | ✗ | ✗ |
| American Funds Growth | ✗ | ✗ | ✗ | ✗ |
| Delaware Value Fund Institutional Class | ✗ | ✗ | ✓ | ✓ |
| Mid Cap Stock Funds | | | | |
| Janus Enterprise N | ✓ | ✓ | ✓ | - |
| T. Rowe Price Mid-Cap Value | ✗ | ✗ | ✗ | ✗ |
| Small Cap Stock Fund | | | | |
| T. Rowe Price Small Cap Stock | ✓ | ✓ | ✓ | ✓ |
| International Stock Fund | | | | |
| American Funds Euro Pacific Growth | ✓ | ✓ | ✓ | ✓ |

MSRP: Maryland Supplemental Retirement Plans

✓ Fund equaled or beat benchmark index

✗ Fund underperformed benchmark index

Source: Maryland Supplemental Retirement Plans; Segal Advisors

MSRP revenues continue to increase at a faster pace than expenditures, resulting in substantial fund balances in excess of the board of trustees' target of 25% of operating expenses. The board responded with fee holidays in calendar 2013 to 2016. The last asset fee holiday was from January to June 2018. **Exhibit 5** shows the plans' assets, participant fees, and the agency's operating budget from fiscal 2015 to 2021.

Exhibit 5
Assets and Participants Fees
Fiscal 2015-2021 Est.

| | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> | <u>2020</u> | <u>2021 Est.</u> |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Net Total Assets (\$ in Billions) | \$3.42 | \$3.38 | \$3.74 | \$4.02 | \$4.17 | \$4.92 | \$4.37 |
| Plan Administrator Fees | \$2,941,840 | \$2,807,945 | \$3,102,426 | \$4,055,312 | \$3,697,123 | \$3,721,081 | \$3,832,713 |
| As Percent of Assets* | 0.09% | 0.08% | 0.08% | 0.10% | 0.09% | 0.08% | 0.09% |
| Board Asset Fee | \$1,107,118 | \$1,080,654 | \$1,755,171 | \$1,055,427 | \$1,976,369 | \$1,839,296 | \$1,870,000 |
| As Percent of Assets | 0.03% | 0.03% | 0.05% | 0.03% | 0.05% | 0.04% | 0.04% |
| \$0.50 Monthly Charge Per Account | 359,090 | 362,942 | 366,465 | 370,090 | 229,461 | 380,929 | 384,738 |
| One-time Settlement Revenue | 13,660 | | 122,406 | 69,765 | 0 | 2,094 | 0 |
| Adjustment for Timing Differences* | 131,498 | 9,939 | -17,007 | 0 | 143,175 | -142,156 | 143,175 |
| Total Board Revenue | \$1,611,366 | \$1,453,535 | \$2,227,035 | \$1,495,282 | \$2,349,005 | \$2,078,069 | \$2,397,913 |
| Operating Expenses | \$1,666,333 | \$1,673,956 | \$1,782,930 | \$2,016,003 | \$1,807,147 | \$1,834,045 | \$2,011,190 |
| Adjustment for Timing Differences* | -13,941 | -3,600 | 142 | 00 | 2,499 | -22,924 | 00 |
| Total Operating Expenses | \$1,652,392 | \$1,670,356 | \$1,783,072 | \$2,016,003 | \$1,809,646 | \$1,811,121 | \$2,011,190 |
| Carryover Balance | \$568,696 | \$351,875 | \$795,838 | \$275,116 | \$814,475 | \$1,081,423 | \$1,468,146 |
| Carryover Balance as Percent of Operating Expenses | 34.4% | 21.1% | 44.6% | 13.6% | 45.0% | 59.7% | 73.0% |

* Timing adjustment is needed to align with Financial Management Information System accounting. Expenditures are budgeted on a fiscal year, while plans and revenues are on calendar years.

Source: Maryland Supplemental Retirement Plans

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At the end of fiscal 2020, the board of trustees had a reserve fund equal to 60% of the annual appropriation, more than double the fund balance target of 25%. The board has permanently reduced asset fees from 0.05% to 0.0425%, effective October 1, 2019. However, it is estimated that the balance will be nearly three times the target at the close of fiscal 2021. **The Department of Legislative Services recommends that MSRP discuss why a fee reduction or fee holidays are not warranted.**

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

Updates

- **Growth in Number of Contributing Members:** As shown in **Exhibit 6**, the number of contributing members grew by 7.1% in fiscal 2020, the largest growth in at least 10 years.

Exhibit 6
Maryland Supplemental Retirement Plans Members and Contributing Members
Fiscal 2011-2020

| <u>Fiscal Year</u> | <u>Total Members</u> | <u>% Change</u> | <u>% Eligible</u> | <u>Contributing Members</u> | <u>% Change</u> | <u>% Eligible</u> |
|--------------------|----------------------|-----------------|-------------------|-----------------------------|-----------------|-------------------|
| 2011 | 58,993 | | 75% | 36,184 | | 46% |
| 2012 | 58,121 | -1.5% | 76% | 35,263 | -2.5% | 46% |
| 2013 | 57,477 | -1.1% | 74% | 34,373 | -2.5% | 44% |
| 2014 | 57,486 | 0.0% | 74% | 33,932 | -1.3% | 44% |
| 2015 | 58,311 | 1.4% | 74% | 34,302 | 1.1% | 44% |
| 2016 | 59,144 | 1.4% | 76% | 34,175 | -0.4% | 44% |
| 2017 | 59,632 | 0.8% | 77% | 34,219 | 0.1% | 44% |
| 2018 | 60,696 | 1.8% | 78% | 34,278 | 0.2% | 44% |
| 2019 | 61,703 | 1.7% | 79% | 34,214 | -0.2% | 44% |
| 2020 | 62,322 | 1.0% | 80% | 36,644 | 7.1% | 44% |

Source: Governor's Fiscal 2022 Budget Books

Appendix 1
Teachers’ and State Employees’ Supplemental Retirement Plans
Plan Characteristics
Calendar 2020

| <u>Plan Characteristic</u> | <u>401(k)</u> | <u>457(b)</u> | <u>403(b)</u> |
|--|--|--------------------------------------|--|
| Participation | State employees | State employees | Employees of State educational institutions |
| Contribution Option | Tax-deferred; after-tax Roth | Tax-deferred; after-tax Roth | Tax-deferred |
| Contribution Limit | \$19,500 | \$19,500 | \$19,500 |
| Catch-up Provision for Employees Over 50 | \$6,500 | \$6,500 | \$6,500 |
| Withdrawal While Employed | Age 59.5, or hardship | Age 70.5, or unforeseeable emergency | Age 59.5, or hardship |
| Avoid 10% Premature Withdrawal Penalty | Leave State employment at age 55 or older, or at age 59.5 regardless of employment | Leaving State employment | Leave State employment at age 55 or older, or at age 59.5 regardless of employment |

Source: Maryland Supplemental Retirement Plans

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- Tax-deferred plans mean that the account may grow by additional contributions and investment earnings without paying income taxes until those amounts are withdrawn from the plans.
 - Since April 2011, after-tax Roth contributions are permitted into 457(b) and 401(k) plans directly from payroll, which means that no further taxes will be due on these contributions or earnings on eligible payouts from the plans.
 - When participating in both a 457(b) and 401(k) plan, or participating in both a 457(b) and 403(b) plan, a member may contribute up to the maximum annual contribution limit (\$19,000) to each plan, for a total of \$38,000 annually.
 - If a member is participating in both the 401(k) and 403(b) plan, a member may not contribute higher than \$19,000 (or \$25,000 if using the age 50 catch-up provision) annually.
 - The State matching program under Internal Revenue Code Section 401(a) provided to eligible employees’ 457(b), 401(k), and 403(b) plans has been suspended since fiscal 2010.

**Appendix 2
Object/Fund Difference Report
Maryland Supplemental Retirement Plans**

| <u>Object/Fund</u> | <u>FY 20 Actual</u> | <u>FY 21 Working Appropriation</u> | <u>FY 22 Allowance</u> | <u>FY 21 - FY 22 Amount Change</u> | <u>Percent Change</u> |
|-----------------------------|-------------------------|--|----------------------------|--|---------------------------|
| Positions | | | | | |
| 01 Regular | 13.00 | 14.00 | 14.00 | 0.00 | 0% |
| Total Positions | 13.00 | 14.00 | 14.00 | 0.00 | 0% |
| Objects | | | | | |
| 01 Salaries and Wages | \$ 1,358,475 | \$ 1,467,802 | \$ 1,433,345 | -\$ 34,457 | -2.3% |
| 02 Technical and Spec. Fees | 0 | 3,850 | 3,850 | 0 | 0% |
| 03 Communication | 7,648 | 6,250 | 6,250 | 0 | 0% |
| 04 Travel | 14,150 | 27,074 | 27,074 | 0 | 0% |
| 07 Motor Vehicles | 10,920 | 11,760 | 11,760 | 0 | 0% |
| 08 Contractual Services | 264,397 | 303,329 | 309,392 | 6,063 | 2.0% |
| 09 Supplies and Materials | 9,821 | 17,500 | 20,000 | 2,500 | 14.3% |
| 11 Equipment – Additional | 8,558 | 12,885 | 12,885 | 0 | 0% |
| 13 Fixed Charges | 160,076 | 160,740 | 160,739 | -1 | 0% |
| Total Objects | \$ 1,834,045 | \$ 2,011,190 | \$ 1,985,295 | -\$ 25,895 | -1.3% |
| Funds | | | | | |
| 03 Special Fund | \$ 1,833,644 | \$ 2,011,190 | \$ 1,985,295 | -\$ 25,895 | -1.3% |
| 09 Reimbursable Fund | 401 | 0 | 0 | 0 | 0.0% |
| Total Funds | \$ 1,834,045 | \$ 2,011,190 | \$ 1,985,295 | -\$ 25,895 | -1.3% |

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.