

**G20J01**  
**State Retirement Agency**

***Executive Summary***

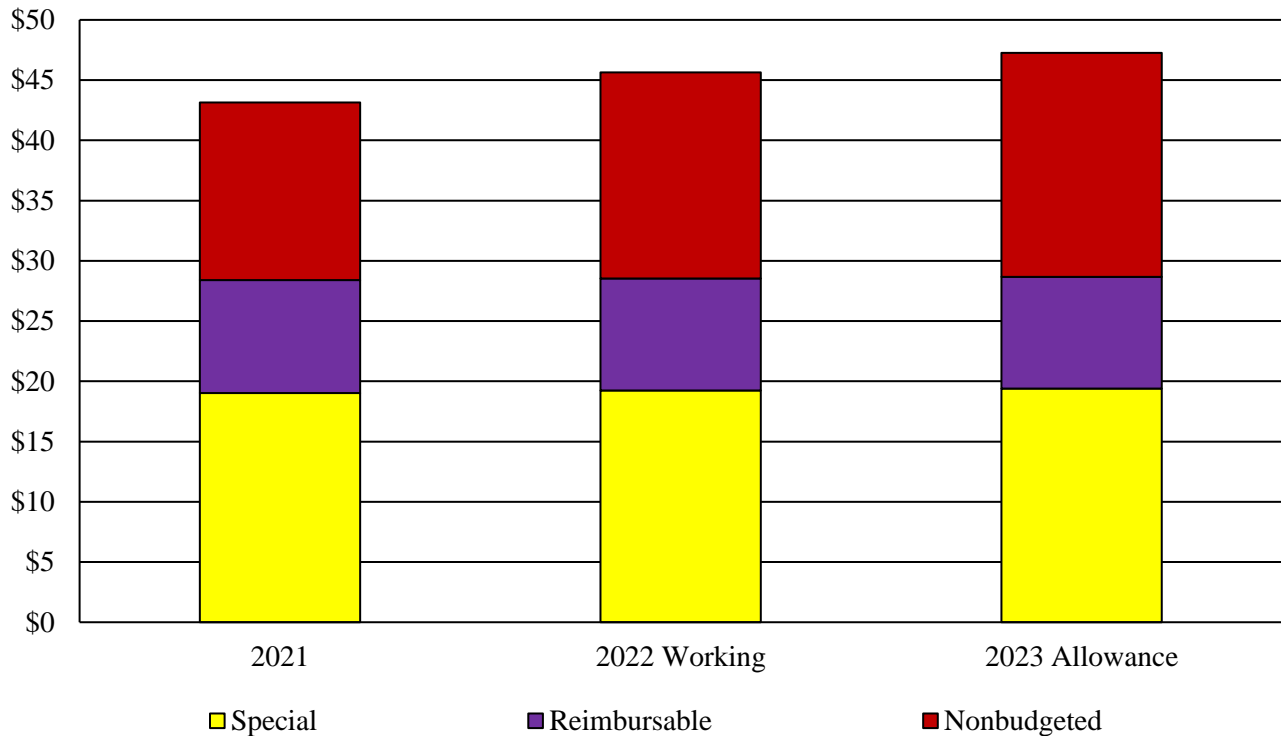
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The State Retirement Agency (SRA), under the direction of the Board of Trustees (BOT), is responsible for administering the State Retirement and Pension System (SRPS). SRA is responsible for policy development, legislation, and legal affairs related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

***Operating Budget Summary***

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**Fiscal 2023 Budget Increases \$1.6 Million, or 3.5%, to \$47.3 Million**  
**(\$ in Millions)**



Note: Numbers may not sum due to rounding. The fiscal 2022 working appropriation and fiscal 2023 allowance do not reflect funding for statewide personnel actions budgeted in the Department of Budget and Management, which may include cost-of-living adjustments, increments, annual salary review increases, and bonuses.

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- The increase in fiscal 2023 is driven by an increase in the nonbudgeted Investment Division, which grows by \$1.6 million, most of which is for personnel costs.
- Special and reimbursable funds are mostly unchanged, as increases for personnel and ongoing information technology (IT) costs are offset by the completion of a major IT project.

### ***Key Observations***

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- ***Call Center Wait Times Improve:*** SRA has seen excessive wait times for members who reach the call center for much of calendar 2019, 2020, and 2021. However, times in the second half of 2021 have met or exceeded agency goals.
- ***Funding Requirements Eased by Returns, Changes in Assumptions:*** Large returns in fiscal 2021 have significantly boosted the pension fund's status. In combination with other assumption changes and the early recognition of those returns, the fund is on track to reach full funding earlier than previously projected while also requiring less in State contributions.

### **Operating Budget Recommended Actions**

1. Concur with Governor's allowance.

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***Operating Budget Analysis***

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**Program Description**

SRA, under the direction of the 15-member SRPS BOT, 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 193,740, participating employers will pay approximately \$147.96 per member in fiscal 2023; 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 2023 is \$42.1 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***

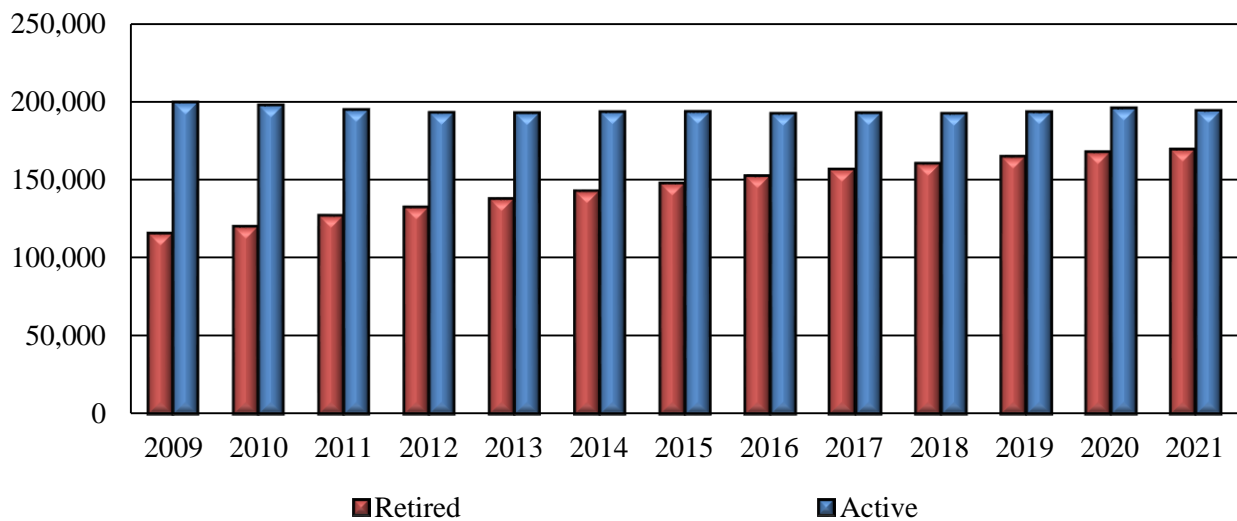
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### **1. Retirees Increasing While Active Membership in State Pension Stays Flat**

As shown in **Exhibit 1**, active membership in the State’s retirement system has remained relatively flat since fiscal 2011, totaling 194,311 members in fiscal 2021. During this same time period, retired members have increased from 127,165 to 169,368, an increase of 4% annually. In fiscal 2021, retirees represented 46.6% 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.

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**Exhibit 1**  
**State Pension System Membership**  
**Fiscal 2009-2021**

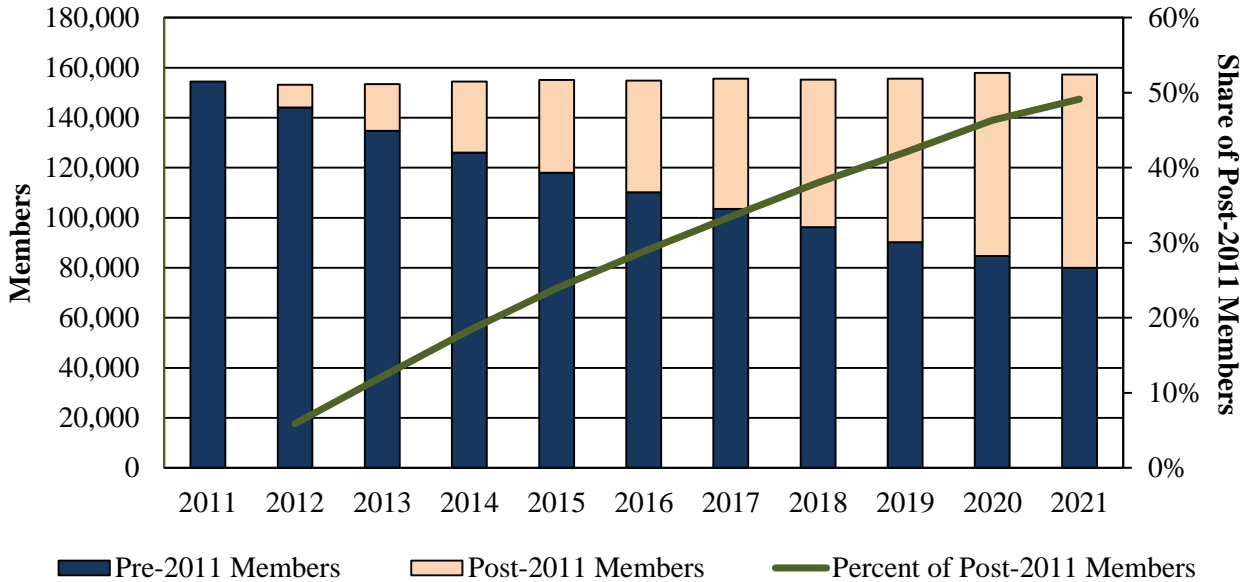


Source: State Retirement Agency

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Due to employee turnover, 49.1% of members in the Teachers’ Pension System/Employees’ Pension system are in the reformed pension system as of fiscal 2021, as shown in **Exhibit 2**. Per Chapter 397 of 2011, 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 2  
Pre- and Post-2011 Pension Reform Members State Employees’ and  
Teachers’ Retirement Systems  
Fiscal 2011-2021**



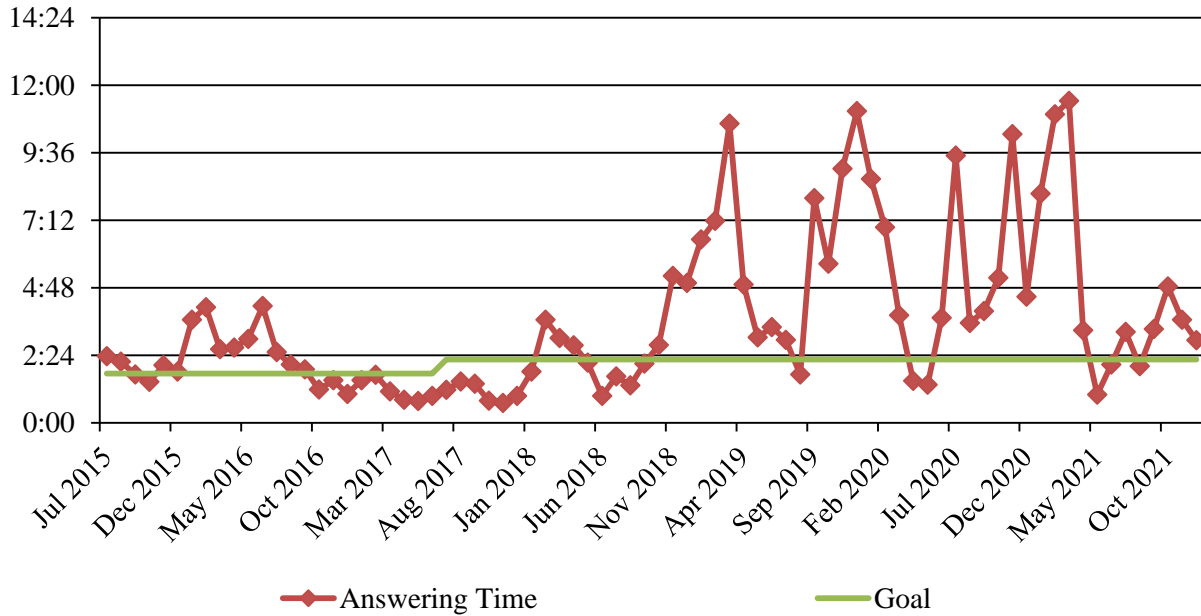
Source: State Retirement Agency

**2. SRA Call Center Wait Times Show Signs of Improvement**

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. Call volume typically decreases beginning in April as tax season comes to an end.

However, a combination of issues have recently 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 3**, several months saw long wait times. Fiscal 2021 saw a slight decrease in dropped calls to 16.4%, while wait times remained high through March 2021.

**Exhibit 3**  
**Member Services Call Answering Time**  
**(in Minutes)**  
**July 2015 to December 2021**



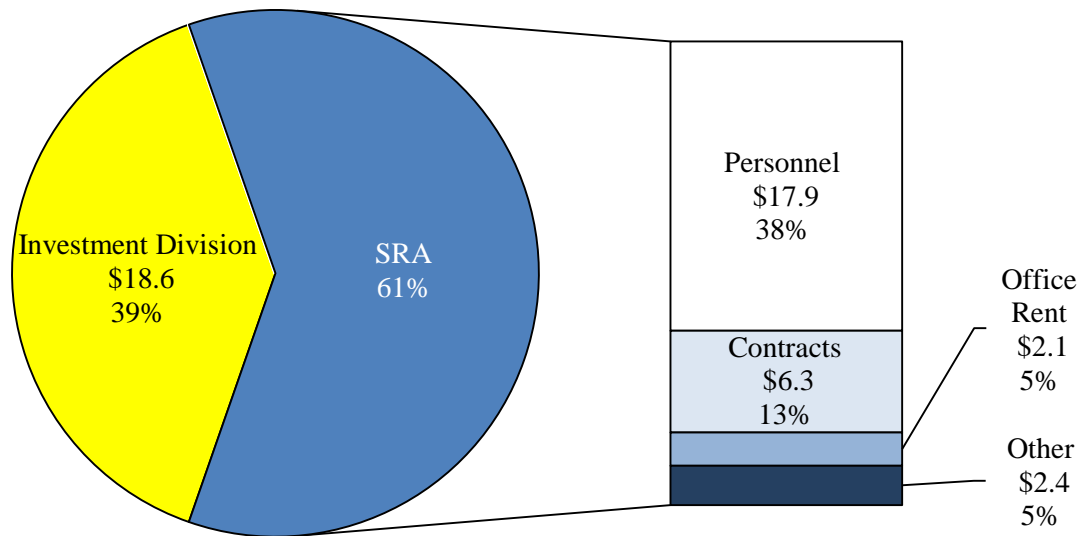
Source: Governor’s Fiscal 2023 Budget Books; State Retirement Agency

In 2019, SRA had a combination of process and system changes and concerns over the State retiree prescription drug program that 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. SRA attributes the recent improvement in wait times to improvements to the mySRPS web portal and increased use of it by members, and that call volumes are down about 7% from an average of about 11,000 per month in fiscal 2020.

## Fiscal 2023 Overview of Agency Spending

The SRA fiscal 2023 allowance totals \$47.3 million and is comprised of two components: SRA operations (61%); and the Investment Division (39%), as shown in **Exhibit 4**. Personnel makes up the largest share of costs in the SRA administration’s budget.

**Exhibit 4**  
**Overview of Agency Spending**  
**Fiscal 2023 Allowance**  
**(\$ in Millions)**



SRA: State Retirement Agency

Source: Fiscal 2023 Governor’s Budget Books

The amounts in Exhibit 4 do not include funding provided in the Department of Budget and Management’s Statewide Program for various salary actions at SRA, including cost-of-living adjustments, salary increments, and bonuses. For SRA, the budget includes approximately \$570,000 in fiscal 2022 deficiency appropriations and \$887,000 in the fiscal 2023 allowance for these purposes.

## Proposed Budget Change

The fiscal 2023 allowance increases by \$1.6 million, or 3.5%, compared to the fiscal 2022 working appropriation, as shown in **Exhibit 5**. SRA personnel costs increase by approximately \$730,000, mostly driven by health insurance costs (\$478,000) and a reduction in the budgeted turnover rate (\$309,000). The increase is partially offset by the abolition of 1 long-term vacant position (\$70,000). The totals do not account for the increases for statewide salary actions noted earlier.

**Exhibit 5**  
**Proposed Budget**  
**State Retirement Agency**  
**(\$ in Thousands)**

<b>How Much It Grows:</b>	<b><u>Special</u> <u>Fund</u></b>	<b><u>Nonbudgeted</u> <u>Fund</u></b>	<b><u>Reimb.</u> <u>Fund</u></b>	<b><u>Total</u></b>
Fiscal 2021 Actual	\$19,038	\$14,739	\$9,375	\$43,151
Fiscal 2022 Working Appropriation	19,229	17,121	9,305	45,655
Fiscal 2023 Allowance	<u>19,398</u>	<u>18,587</u>	<u>9,267</u>	<u>47,252</u>
Fiscal 2022-2023 Amount Change	\$169	\$1,466	-\$38	\$1,597
Fiscal 2022-2023 Percent Change	0.9%	8.6%	-0.4%	3.5%
<b>Where It Goes:</b>				<b><u>Change</u></b>
<b>Personnel Expenses (Excluding Investment Division)</b>				
Employee and retiree health insurance .....				\$478
Turnover adjustments.....				309
Retirement contributions.....				30
Other fringe benefit adjustments.....				9
Regular earnings .....				8
Additional assistance .....				-34
Abolished long-term vacant position .....				-70
<b>Administration and Major IT Changes</b>				
Ongoing operating costs for MPAS-3.....				738
Contractual management and consultant costs .....				143
Department of Information Technology services allocation.....				121
Other changes.....				131
MPAS-3 major IT project completion .....				-1,732
<b>Investment Division (Nonbudgeted)</b>				
Regular earnings .....				561
Incentive bonuses.....				475
Investment Division contractual costs .....				205
Other Investment Division personnel costs .....				202
Other Investment Division costs .....				23
<b>Total</b>				<b>\$1,597</b>

IT: information technology

MPAS-3: The Maryland Pension Administration System

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



## **Investment Division**

The increase in fiscal 2023 is driven almost entirely by an increase in the nonbudgeted Investment Division, which grows by \$1.6 million. Of that amount, \$1.2 million of the increase is in personnel costs, including \$561,000 in regular salary increases and \$475,000 in increased incentive bonuses. The salary increases represent the division's staff planned salary increases of the maximum of 10% annually as specified in Chapters 727 and 728. The allowance includes incentive payments of 33% of salary for those eligible in recognition of the division's overperformance of benchmarks, discussed later in this analysis.

In the 2021 session, the budget committees included committee narrative in the *Joint Chairmen's Report* (JCR) requesting corrective data regarding the division's personnel costs by subobject for fiscal 2019 through 2023. This data was provided and has been used in preparation of this analysis.

## **Maryland Pension Administration System Project Nears Completion**

The Maryland Pension Administration System (MPAS-3) is in its third and final phase and is expected to be completed in June 2022. The fiscal 2022 working appropriation contains \$1.7 million, which represents the last budgeted funds for the project. The project is expected to total \$19.4 million in costs and has automated the business practices of the agency and provided 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. The fiscal 2023 allowance provides an increase of \$738,000 to support the ongoing operating costs. See **Appendix 3** for further details.

***Personnel Data***

	<b><u>FY 21</u></b>	<b><u>FY 22</u></b>	<b><u>FY 23</u></b>	<b><u>FY 22-23</u></b>
	<b><u>Actual</u></b>	<b><u>Working</u></b>	<b><u>Allowance</u></b>	<b><u>Change</u></b>
Regular Positions	216.00	215.00	214.00	-1.00
Contractual FTEs	<u>3.61</u>	<u>8.00</u>	<u>7.00</u>	<u>-1.00</u>
<b>Total Personnel</b>	<b>219.61</b>	<b>223.00</b>	<b>221.00</b>	<b>-2.00</b>

***Vacancy Data: Regular Positions***

Turnover and Necessary Vacancies, Excluding New Positions	12.75	5.96%
Positions and Percentage Vacant as of 12/31/21	22.00	10.23%

Vacancies Above Turnover 9.25

- SRA abolished 1 long-term vacant IT supervisor position that had been vacant for over a year due to difficulties recruiting for the position.
- There are 22 vacancies at SRA, a rate of 10.2%, down from 25 vacancies one year prior. The budgeted turnover rate has been reduced from 7.1% in the fiscal 2022 allowance to below 6% in the fiscal 2023 allowance. The turnover rate reduction was provided to allow SRA to offer salaries above base in an effort to fill vacancies.
- Of the 214 regular positions in the fiscal 2023 allowance, 41 are in the Investment Division, unchanged from the prior year.

## ***Issues***

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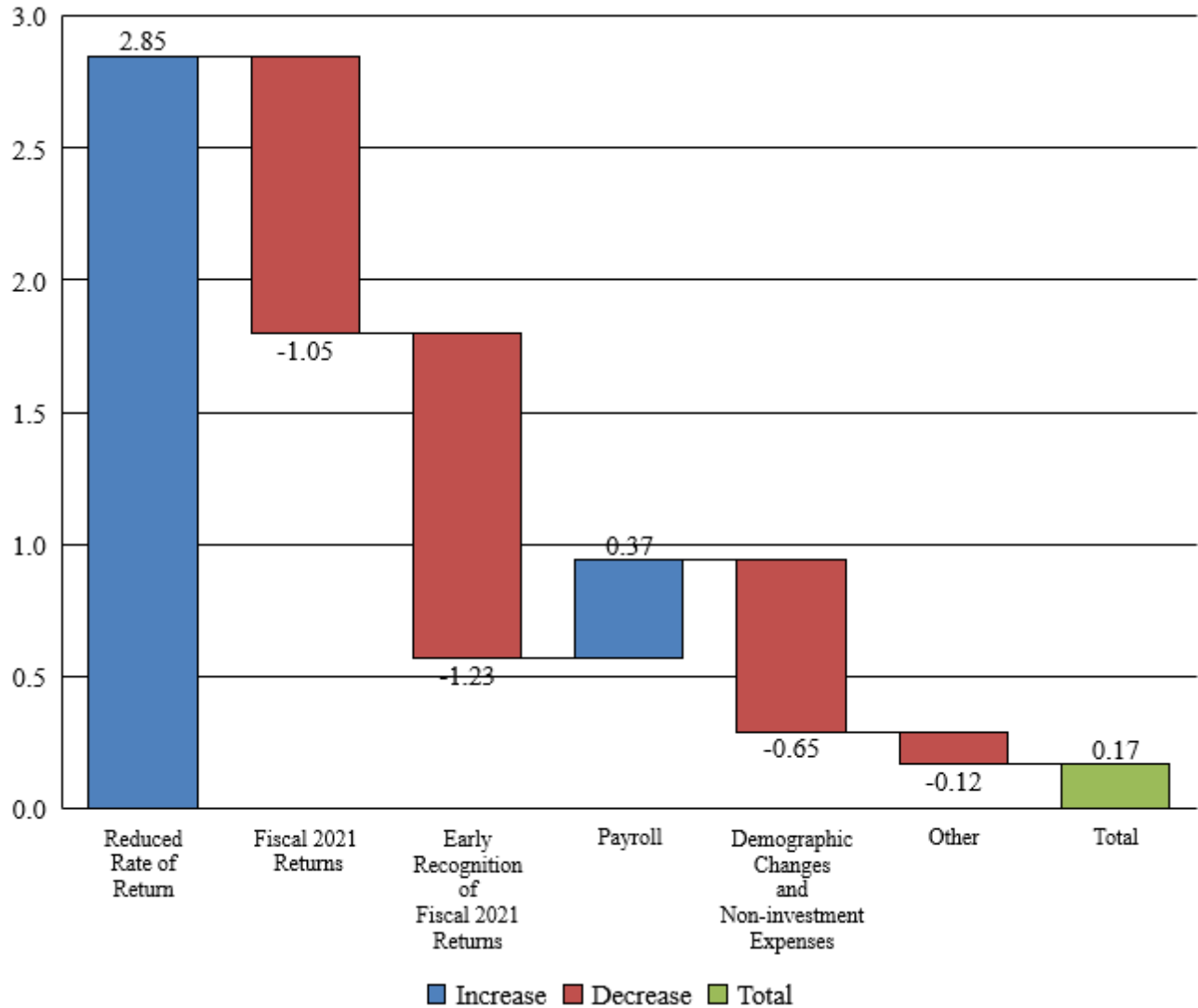
### **1. Returns, Assumption Changes Drastically Impact Funding Needs**

The system's investment return for fiscal 2021 was 26.7% net of management fees, drastically outperforming the assumed rate of return of 7.4%. The market value of system assets totaled \$67.9 billion at the close of fiscal 2021, up from \$54.8 billion the year prior.

BOT's policy has been to spread each year's investment returns over the subsequent five years in equal increments. This asset smoothing has the effect of reducing the year-to-year volatility of market returns. However, due to the large fiscal 2021 return, BOT changed its policy for the year to recognize 40% of the returns in the first year and 15% of the returns in each of the following four years. This policy change was made in conjunction with other changes in actuarial assumptions. BOT reduced the plans' assumed rate of return from 7.4% to 6.8%, slightly below the median of 7% among large public pension funds.

The large fiscal 2021 returns, the change in the smoothing methodology, and the change in the rate of return each individually impact the State's employer contribution rates. However, as shown in **Exhibit 6**, the required actuarial rate only increased by 17 basis points as the impacts were in opposite directions; the reduced rate of return assumption is offset by the large gains and the decision to recognize more of them sooner. Other changes are caused by changes to the payroll base and the changing demographics of members.

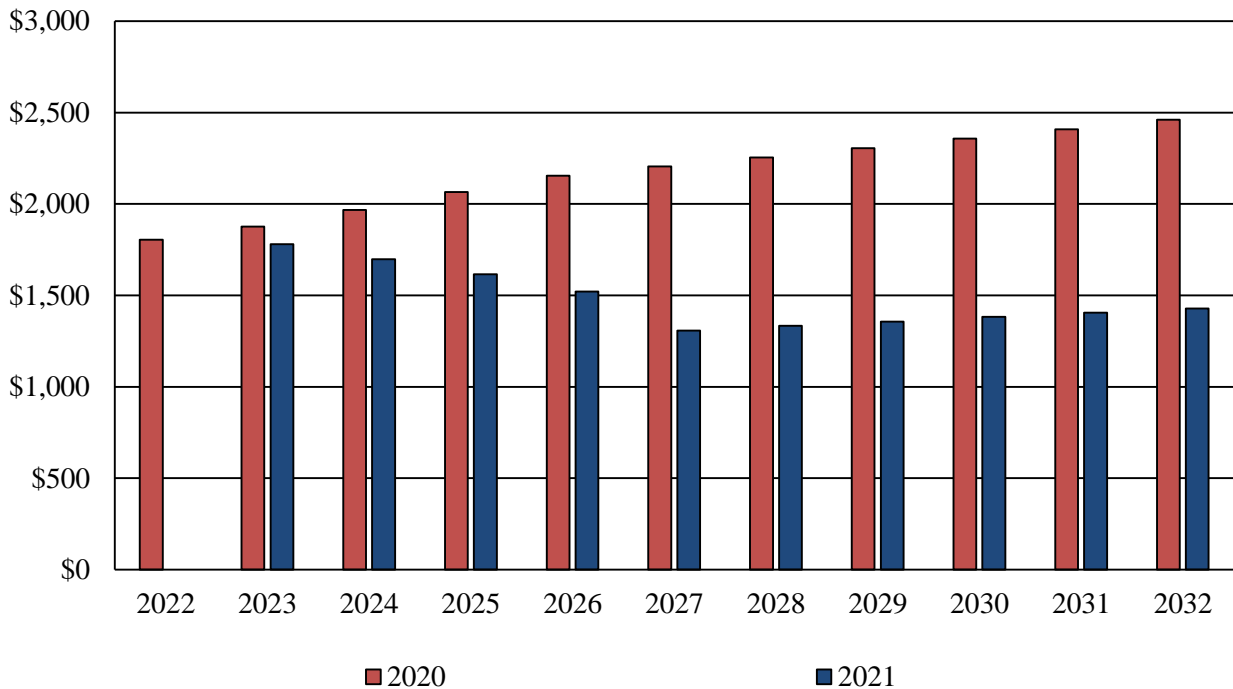
**Exhibit 6  
Changes to Employer Contribution Rate  
Employees' Combined System  
Fiscal 2023**



Source: GRS Actuarial Valuation for Fiscal Year 2023

The fiscal 2021 windfall has led to a significant reduction in the projected amount of funding that the State will be required to contribute to the plan in the out-years in order to meet funding benchmarks. As shown in **Exhibit 7**, required contributions are estimated to be significantly less than what was projected just one year prior. Savings to the State are approximately \$100 million in fiscal 2023 and are expected to reach more than \$1 billion by fiscal 2031, totaling \$7.2 billion over the 10-year period ending in fiscal 2032.

**Exhibit 7**  
**Projected State Contributions**  
**Fiscal 2022-2032**  
**(\$ in Millions)**



Source: GRS; Department of Legislative Services

### Local School Boards Will See Large Contribution Increase

Local school boards are required to make contributions for members of the Teachers’ Retirement and Pension systems (TRS/TPS). While the changes in assumptions on net lead to stable contribution rates for the State, local school boards will see a nearly 26% increase in their required contribution in fiscal 2023. As noted above, on its own, the decision to reduce the assumed rate of return has the impact of increasing required contributions; this is the case for both the State and for local school boards. However, for local school boards, the contribution amounts are the amounts associated with the normal cost for local employees

in TRS/TPS. The normal cost is the portion of the yearly contribution rate that reflects the amount needed to fund liabilities that will be accrued in the upcoming year. The other changes BOT made only affect the unfunded liability portion of the contribution, meaning the benefits of recognizing the large returns early do not accrue to the local school boards.

## **Board Recommends Amortization Policy Change**

In September 2021, the SRPS BOT voted to recommend a change to the existing policy for amortizing gains and losses to its liabilities. As the current amortization policy is in statute, any change would require legislative action. The rationale for the board's recommendation is that the current policy may make State pension contribution rates more volatile as the current closed amortization period, scheduled to end in fiscal 2038, approaches its final years. The board considered at least four different amortization policies, ultimately choosing to recommend one that leaves current liabilities unchanged but takes a different approach as to future liabilities that accrue on or after July 1, 2023. The recommended policy would create the following amortization policies for various liabilities:

- ***Current Liabilities:*** maintain current policy of a closed, 25-year period;
- ***Gains or Losses:*** rolling 15 years, pooled;
- ***Assumption or Method Changes:*** closed 25 years, layered; and
- ***Early Retirement Incentives:*** closed 5 years.

One drawback of a rolling amortization schedule is that unfunded liabilities are reset each year, meaning the system will not approach full funding.

## **Investment Performance**

As noted above, the system's investment return for fiscal 2021 was 26.69% net of management fees, far exceeding the assumed rate of return of 7.40%. The system also exceeded its policy benchmarks for the system as a whole, driven by returns in the growth equity asset class. System performance was driven primarily by growth equity returns, which made up 52.6% of the portfolio and returned 47.08% for the fiscal year, which was 2.53 percentage 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. As shown in **Exhibit 8**, the system's assets totaled \$67.9 billion as of June 30, 2021 – a significant increase over the \$54.8 billion in assets at the end of fiscal 2020.

**Exhibit 8**  
**State Retirement and Pension System of Maryland**  
**Fund Investment Performance for Periods Ending June 30, 2021**  
(\$ in Millions)

	<u>Assets</u>	<u>% Total</u>	<u>Time Weighted Total Returns</u>		
			<u>1 Year</u>	<u>5 Years</u>	<u>10 Years</u>
<b>Growth Equity</b>					
Public Equity	\$24,155	35.5%	44.54%	15.07%	10.50%
Private Equity	11,577	17.1%	51.85%	19.76%	15.97%
<b>Subtotal</b>	<b>\$35,732</b>	<b>52.6%</b>	<b>47.08%</b>	<b>16.38%</b>	<b>11.62%</b>
<b>Rate Sensitive</b>					
Nominal Fixed Income	\$8,148	12.0%	-5.31%	4.36%	4.81%
Inflation Sensitive	2,677	3.9%	6.61%	4.29%	3.85%
<b>Subtotal</b>	<b>\$10,825</b>	<b>15.9%</b>	<b>-2.53%</b>	<b>4.40%</b>	<b>4.70%</b>
<b>Credit/Debt</b>					
High Yield Bonds and Bank Loans	\$4,918	7.2%	15.90%	7.33%	6.98%
Non-U.S. Credit	1,316	1.9%	8.70%	4.55%	0.60%
<b>Subtotal</b>	<b>\$6,235</b>	<b>9.2%</b>	<b>14.36%</b>	<b>6.41%</b>	<b>6.08%</b>
<b>Real Assets</b>					
Real Estate	\$5,023	7.4%	8.80%	6.42%	9.04%
Natural Resources and Infrastructure	2,565	3.8%	27.31%	4.88%	5.22%
<b>Subtotal</b>	<b>\$7,599</b>	<b>11.2%</b>	<b>14.81%</b>	<b>5.29%</b>	<b>2.90%</b>
<b>Absolute Return</b>	<b>\$5,882</b>	<b>8.7%</b>	<b>15.51%</b>	<b>4.36%</b>	<b>3.38%</b>
<b>Multi-asset</b>	<b>\$668</b>	<b>1.0%</b>	<b>24.11%</b>	<b>n/a</b>	<b>n/a</b>
<b>Cash and Cash Equitization</b>	<b>\$943</b>	<b>1.4%</b>	<b>2.04%</b>	<b>5.32%</b>	<b>3.85%</b>
<b>Total Fund</b>	<b>\$67,883</b>	<b>100.0%</b>	<b>26.69%</b>	<b>10.68%</b>	<b>8.15%</b>

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, 2021

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As shown in **Exhibit 9**, the system as a whole performed 2.27% (227 basis points) above the benchmark, further enhancing the system’s record returns for the fiscal year. With the exception of the rate-sensitive asset class, all of the major asset classes – including their sub-asset classes – achieved returns in excess of the assumed rate of return of 7.40%. The rate-sensitive asset class returned -2.53% for the year, though this outperformed the benchmark of -3.91 percentage points. The system’s private equity assets had the most significant return – 51.85% – though underperforming its benchmark. Public equity had the most significant performance, beating its benchmark by 4.03 percentage points. The real assets, absolute return, and multi-asset asset classes all returned at least twice the assumed rate of return but also all underperformed their benchmarks.

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**Exhibit 9**  
**Benchmark Performance**  
**Fiscal 2021**

	<u>Return</u>	<u>Return Benchmark</u>	<u>Excess</u>
<b>Growth Equity</b>	<b>47.08%</b>	<b>44.55%</b>	<b>2.53%</b>
Public Equity	44.54%	40.52%	4.03%
Private Equity	51.85%	53.13%	-1.28%
<b>Rate Sensitive</b>	<b>-2.53%</b>	<b>-3.91%</b>	<b>1.37%</b>
Nominal Fixed Income	-5.31%	-6.50%	1.20%
Inflation Sensitive	6.61%	6.51%	0.10%
<b>Credit</b>	<b>14.36%</b>	<b>12.82%</b>	<b>1.53%</b>
High Yield Bonds and Bank Loans	15.90%	14.63%	1.27%
Non-U.S. Credit	8.70%	6.56%	2.14%
<b>Real Assets</b>	<b>14.81%</b>	<b>16.30%</b>	<b>-1.48%</b>
Real Estate	8.80%	7.51%	1.29%
Natural Resources and Infrastructure	27.34%	37.07%	-9.73%
<b>Absolute Return</b>	<b>15.51%</b>	<b>15.86%</b>	<b>-0.34%</b>
<b>Multi-Asset</b>	<b>24.11%</b>	<b>24.42%</b>	<b>-0.31%</b>
<b>Cash and Cash Equitization</b>	<b>2.04%</b>	<b>0.08%</b>	<b>1.95%</b>
<b>Total Fund</b>	<b>26.69%</b>	<b>24.42%</b>	<b>2.27%</b>

Note: Numbers 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, 2021



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 2021 total fund investment performance was rated in the sixty-fourth 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’s relative total fund performance in the bottom quartile, with improvement in recent years. The TUCS rankings are based on returns gross of fees.

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**Exhibit 10**  
**TUCS Percentile Rankings for Periods Ending June 30**  
**Fiscal 2018-2021**

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
1 Year	75	60	53	64
3 Years	94	92	60	57
5 Years	84	88	71	75
10 Years	94	87	87	88

TUCS: Wilshire Trust Universe Comparison Services

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

Source: Wilshire Trust Universe Comparison Service

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The SRPS BOT 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;

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- **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.

In fall 2021, the board made adjustments to the system’s asset allocation. **Exhibit 11** shows system asset allocations in relation to the strategic targets in effect on June 30, 2021, the changes adopted in September 2021, and actual assets at the close of fiscal 2021.

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**Exhibit 11**  
**Allocation of Plan Funds**  
**Calendar 2021**

<u>Asset Class</u>	<u>June 30, 2021</u> <u>Target</u>	<u>September 21, 2021</u> <u>Target</u>	<u>June 30, 2021</u> <u>Actual</u>
Growth/Equity	50.00%	50.00%	52.60%
Rate Sensitive	19.00%	21.00%	15.90%
Credit/Debt	9.00%	8.00%	9.20%
Real Assets	14.00%	15.00%	11.20%
Absolute Return	8.00%	6.00%	8.70%
Multi-Asset	0.00%	0.00%	1.00%
Cash and Cash Equitization	0.00%	0.00%	1.40%
<b>Total Fund</b>		<b>100.00%</b>	<b>100.00%</b>

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

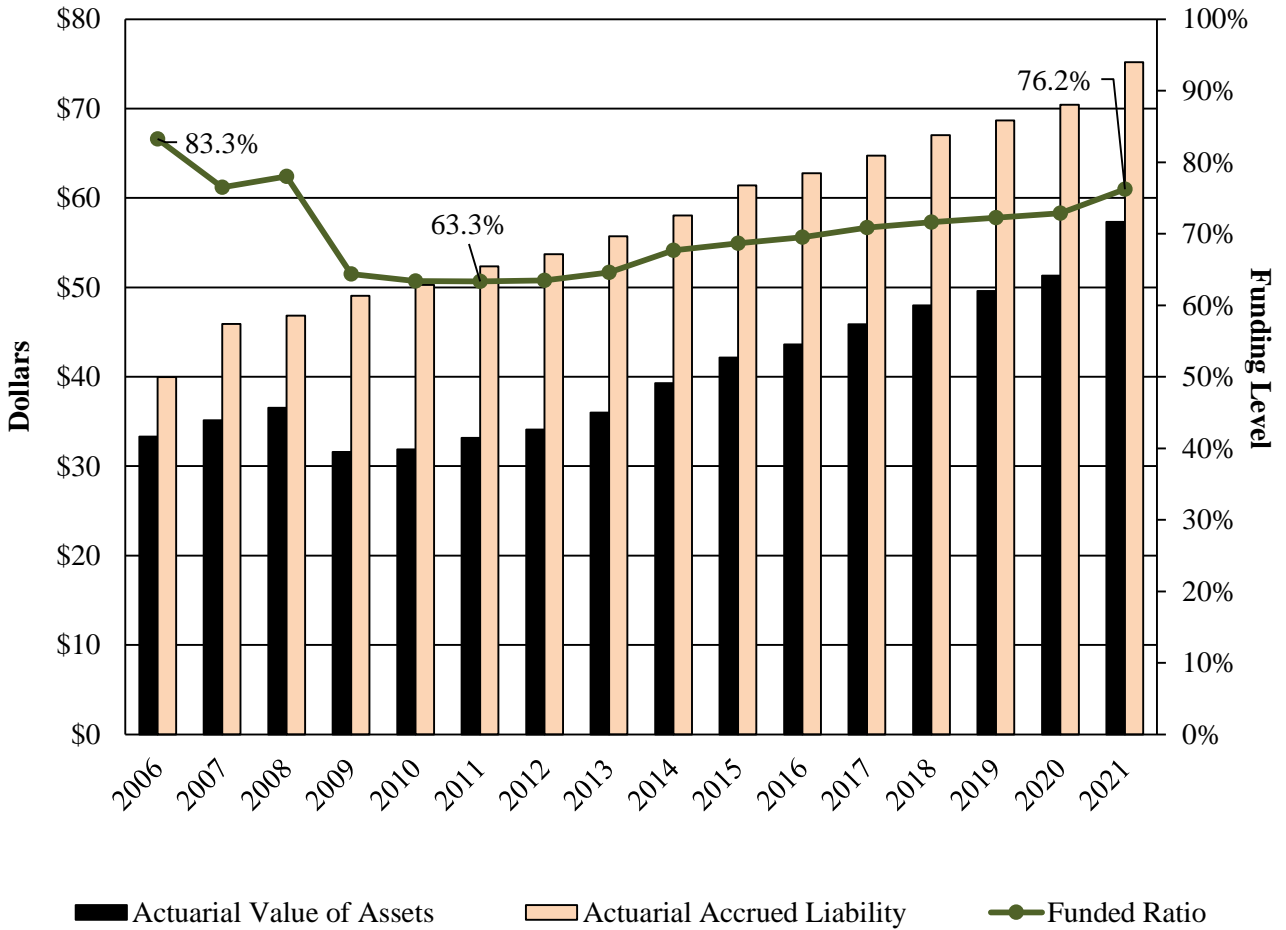
Source: State Retirement and Pension System; State Street – State Retirement Agency of Maryland – Rates of Return – Net Mgr – Periods Ending June 30, 2021

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## **Funding Levels Increase**

In 2011, the General Assembly passed 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. Due to a combination of the reforms, supplemental funding, and significantly higher returns than expected in fiscal 2021, SRPS is projected to achieve 80% actuarial funding by fiscal 2025. As shown in **Exhibit 12**, the actual funded ratio in fiscal 2021 was 76.2% for all State plans.

**Exhibit 12**  
**State Plans’ Pension Assets, Liabilities, and Funded Ratio**  
**Fiscal 2006-2021**  
**(\$ in Billions)**



Source: State Retirement Agency

## ***Operating Budget Recommended Actions***

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1. Concur with Governor's allowance.

**Appendix 1**  
**2021 Joint Chairmen’s Report Responses from Agency**

The 2021 JCR requested that SRA prepare one report. Electronic copies of the full JCR responses can be found on the Department of Legislative Services Library website.

- ***Investment Division Personnel Costs:*** Inaccurate data regarding Investment Division personnel costs had been provided in recent Governor’s Budget Books. Corrected data for fiscal 2019 and 2020 have been provided, and updated information for fiscal 2021, 2022, and 2023 have also been provided. Investment Division personnel costs are discussed further in the Proposed Budget Change portion of this analysis.

**Appendix 2**  
**State Pension Contributions**  
**Fiscal 2014-2023**  
**(\$ in Millions)**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
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	\$1,698.3
Supplemental	100.0	100.0	75.0	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	25.0
Governor	0.0	0.0	0.0	25.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total State</b>	<b>\$1,419.4</b>	<b>\$1,488.6</b>	<b>\$1,515.1</b>	<b>\$1,683.8</b>	<b>\$1,622.5</b>	<b>\$1,644.8</b>	<b>\$1,702.7</b>	<b>\$1,744.6</b>	<b>\$1,811.6</b>	<b>\$1,798.3</b>
Local School Boards	\$173.2	\$221.6	\$254.8	\$279.8	\$280.5	\$283.8	\$288.6	\$293.8	\$296.5	\$373.0
<b>Total Employer</b>	<b>\$1,592.6</b>	<b>\$1,710.2</b>	<b>\$1,769.9</b>	<b>\$1,963.6</b>	<b>\$1,903.0</b>	<b>\$1,928.6</b>	<b>\$1,991.3</b>	<b>\$2,038.4</b>	<b>\$2,108.1</b>	<b>\$2,171.3</b>

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**

This project is discussed in the Proposed Budget Change section of this analysis.

<b>New/Ongoing:</b> Ongoing								
<b>Start Date:</b> July 1, 2018					<b>Est. Completion Date:</b> June 2022			
<b>Implementation Strategy:</b> Agile								
<b>(\$ in Millions)</b>	<b>Prior Year</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>Remainder</b>	<b>Total</b>
<b>SF</b>	\$12.437	\$0.457	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$12.895
<b>RF</b>	6.299	0.236	0.000	0.000	0.000	0.000	0.000	6.535
<b>Total</b>	<b>\$18.736</b>	<b>\$0.693</b>	<b>\$0.000</b>	<b>\$0.000</b>	<b>\$0.000</b>	<b>\$0.000</b>	<b>\$0.000</b>	<b>\$19.429</b>

- **Project Summary:** This project is the third of three phases; the first began in 2006. 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 SRA 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**

<u>Object/Fund</u>	<u>FY 21 Actual</u>	<u>FY 22 Working Appropriation</u>	<u>FY 23 Allowance</u>	<u>FY 22 - FY 23 Amount Change</u>	<u>Percent Change</u>
<b>Positions</b>					
01 Regular	175.00	174.00	173.00	-1.00	-0.6%
02 Contractual	3.61	8.00	7.00	-1.00	-12.5%
<b>Total Positions</b>	<b>178.61</b>	<b>182.00</b>	<b>180.00</b>	<b>-2.00</b>	<b>-1.1%</b>
<b>Objects</b>					
01 Salaries and Wages	\$ 17,132,438	\$ 17,160,992	\$ 17,891,240	\$ 730,248	4.3%
02 Technical and Special Fees	487,894	711,779	724,759	12,980	1.8%
03 Communication	931,885	753,800	753,800	0	0%
04 Travel	7,644	83,497	98,292	14,795	17.7%
07 Motor Vehicles	130,496	128,060	128,511	451	0.4%
08 Contractual Services	6,916,378	6,979,224	6,278,075	-701,149	-10.0%
09 Supplies and Materials	158,478	113,421	117,129	3,708	3.3%
10 Equipment – Replacement	76,140	75,020	108,593	33,573	44.8%
11 Equipment – Additional	245,943	35,000	61,298	26,298	75.1%
12 Grants, Subsidies, and Contributions	160,606	160,606	160,606	0	0%
13 Fixed Charges	2,164,160	2,332,472	2,342,997	10,525	0.5%
<b>Total Objects</b>	<b>\$ 28,412,062</b>	<b>\$ 28,533,871</b>	<b>\$ 28,665,300</b>	<b>\$ 131,429</b>	<b>0.5%</b>
<b>Funds</b>					
03 Special Fund	\$ 19,037,510	\$ 19,228,629	\$ 19,397,820	\$ 169,191	0.9%
09 Reimbursable Fund	9,374,552	9,305,242	9,267,480	-37,762	-0.4%
<b>Total Funds</b>	<b>\$ 28,412,062</b>	<b>\$ 28,533,871</b>	<b>\$ 28,665,300</b>	<b>\$ 131,429</b>	<b>0.5%</b>

Note: Nonbudgeted Investment Division not included. The fiscal 2022 working appropriation does not include deficiency appropriations. The fiscal 2022 working appropriation and fiscal 2023 allowance do not reflect funding for statewide personnel actions budgeted in the Department of Budget and Management, which include cost-of-living adjustments, increments, bonuses, and may include annual salary review adjustments.



**Appendix 5  
Fiscal Summary  
State Retirement Agency**

<u>Program/Unit</u>	<u>FY 21 Actual</u>	<u>FY 22 Wrk Approp</u>	<u>FY 23 Allowance</u>	<u>Change</u>	<u>FY 22 - FY 23 % Change</u>
01 State Retirement Agency	\$ 26,144,222	\$ 26,801,494	\$ 28,665,300	\$ 1,863,806	7.0%
02 Major Information Technology Development	2,267,840	1,732,377	0	-1,732,377	-100.0%
<b>Total Expenditures</b>	<b>\$ 28,412,062</b>	<b>\$ 28,533,871</b>	<b>\$ 28,665,300</b>	<b>\$ 131,429</b>	<b>0.5%</b>
Special Fund	\$ 19,037,510	\$ 19,228,629	\$ 19,397,820	\$ 169,191	0.9%
<b>Total Appropriations</b>	<b>\$ 19,037,510</b>	<b>\$ 19,228,629</b>	<b>\$ 19,397,820</b>	<b>\$ 169,191</b>	<b>0.9%</b>
Reimbursable Fund	\$ 9,374,552	\$ 9,305,242	\$ 9,267,480	-\$ 37,762	-0.4%
<b>Total Funds</b>	<b>\$ 28,412,062</b>	<b>\$ 28,533,871</b>	<b>\$ 28,665,300</b>	<b>\$ 131,429</b>	<b>0.5%</b>

Note: The fiscal 2022 working appropriation does not include deficiency appropriations. The fiscal 2022 working appropriation and fiscal 2023 allowance do not reflect funding for statewide personnel actions budgeted in the Department of Budget and Management, which include cost-of-living adjustments, increments, bonuses, and may include annual salary review adjustments.