

G50L00

Maryland Supplemental Retirement Plans

Program Description

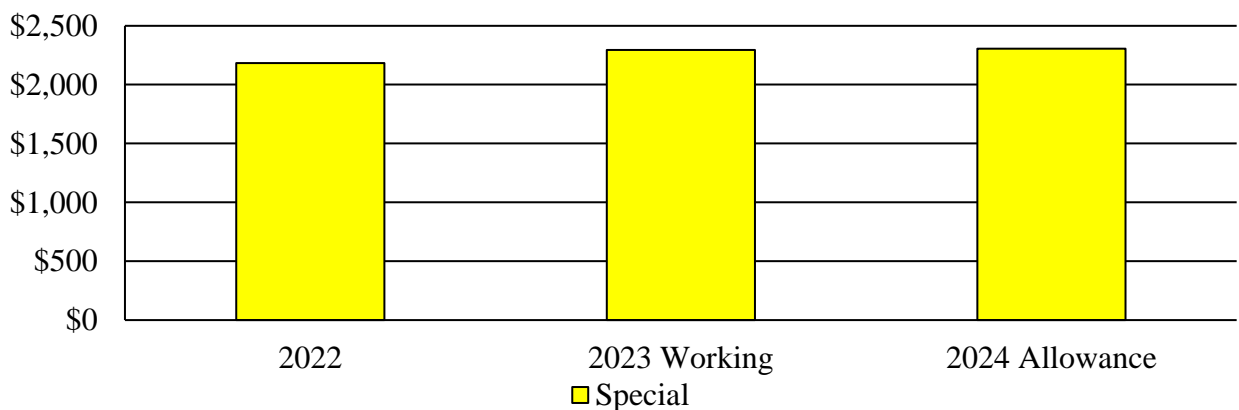
The Maryland Teachers' and State Employees' Supplemental Retirement Plans are administered by a board of trustees, as established in Title 35 of the State Personnel and Pensions Article. The board has responsibility over four plan options: 401(k) and 457(b) plans for State employees; 403(b) plans for employees of State educational institutions; and a 401(a) State matching plan that has been suspended since fiscal 2010.

The Maryland Supplemental Retirement Plans (MSRP) staff support 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 is currently composed of a 0.0325% 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 0.11% of plan assets and a \$0.50 charge on specified accounts.

Operating Budget Summary

Fiscal 2024 Budget Increases \$11,943, or 0.5%, to \$2.3 Million (\$ in Thousands)



Note: The fiscal 2023 working appropriation includes deficiency appropriations including this agency's share of a deficiency appropriation budgeted in the Statewide Account within the Department of Budget and Management (DBM). Fiscal 2024 salary enhancements are budgeted in the Statewide Account within DBM.

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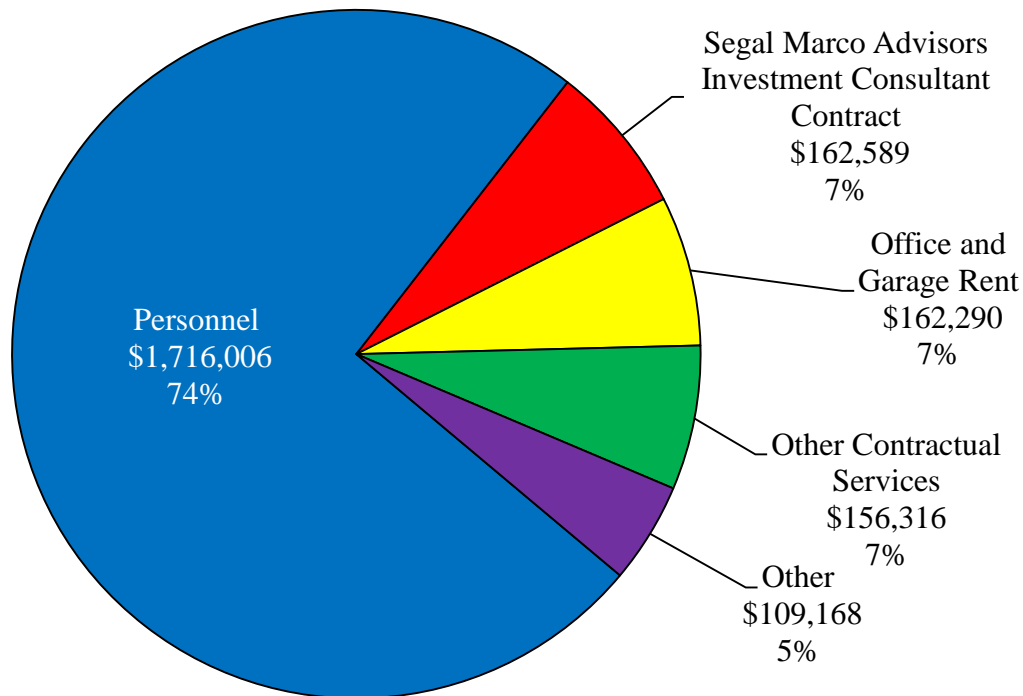
Fiscal 2023 Proposed Deficiency

The budget includes a \$22,000 special fund deficiency for increased contract costs related to a new investment manager and cloud-based management software.

Fiscal 2024 Overview of Agency Spending

As shown in **Exhibit 1**, nearly three-quarters of MSRP’s fiscal 2024 allowance is for agency personnel costs. Other large costs include funding for office and garage leases (7%) and contractual services (14%). MSRP’s largest contract is for investment consulting with Segal Marco Advisors.

Exhibit 1
Overview of Agency Spending
Fiscal 2024 Allowance



Source: Governor’s Fiscal 2024 Budget Books

Proposed Budget Change

The fiscal 2024 allowance increases by \$11,943, or 0.5%, 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>Total</u>
Fiscal 2022 Actual	\$2,184	\$2,184
Fiscal 2023 Working Appropriation	2,294	2,294
Fiscal 2024 Allowance	<u>2,306</u>	<u>2,306</u>
Fiscal 2023-2024 Amount Change	\$12	\$12
Fiscal 2023-2024 Percent Change	0.5%	0.5%

Where It Goes:	<u>Change</u>
Personnel Expenses	
Annualization of November 2022 cost-of-living adjustment	\$20
Regular earnings	-11
Other fringe benefit adjustments	-2
Other Changes	
Statewide information technology services allocation	18
Rent.....	5
Other changes	4
One-time fiscal 2023 deficiency for increased contract costs	-22
Total	\$12

Note: Numbers may not sum to total due to rounding. The fiscal 2023 working appropriation includes deficiency appropriations including this agency's share of a deficiency appropriation budgeted in the statewide account within the Department of Budget and Management (DBM). Fiscal 2024 salary enhancements are budgeted in the Statewide Account within DBM.

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Personnel Data

	<u>FY 22</u> <u>Actual</u>	<u>FY 23</u> <u>Working</u>	<u>FY 24</u> <u>Allowance</u>	<u>FY 23-24</u> <u>Change</u>
Regular Positions	14.00	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	14.00	14.00	14.00	0.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	0.00	0.00%
Positions and Percentage Vacant as of 12/31/22	1.00	7.14%
Vacancies Above Turnover	1.00	

Key Observations

1. Fund Balance Growth Results in Fee Reductions

MSRP closed fiscal 2022 with a fund balance of more than \$1 million, a slight decrease from the prior year. The amount represents 54% of the agency's operating expenses, which is more than double the agency target of 25%. In recognition of the high fund balance, the MSRP board reduced participant fees to 0.0325% of assets (from 0.0425%) in February 2022 and implemented a fee holiday for the final three months of calendar 2022. MSRP projects a fiscal 2023 fund balance of less than \$800,000, or 35.6% of operating expenses, as shown in **Exhibit 3**.

Exhibit 3 Assets and Participants Fees Fiscal 2020-2023 Est.

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023 Est.</u>
Net Total Assets (\$ in Billions)	\$4.92	\$5.34	\$4.66	\$4.95
Plan Administrator Fees	\$3,721,081	\$4,892,555	\$4,091,193	\$3,173,625
As Percent of Assets*	0.08%	0.09%	0.09%	0.06%
Board Asset Fee	\$1,839,296	\$1,450,726	\$1,452,149	\$1,608,750
As Percent of Assets	0.04%	0.03%	0.03%	0.03%
\$0.50 Monthly Charge Per Account	380,929	483,602	382,806	384,000
One-time Settlement Revenue	2,094	63,974	0	0
Adjustment for Timing Differences**	-142,156	-33,373	0	0
Total Board Revenue	\$2,080,163	\$1,964,929	\$1,834,955	\$1,992,750
Operating Expenses	\$1,834,045	\$1,935,723	\$2,123,404	\$2,231,447
Adjustment for Timing Differences**	-22,924	0	-208,896	0
Total Operating Expenses	\$1,811,121	\$1,935,723	\$1,914,508	\$2,231,447
Carryover Balance	\$1,083,517	\$1,112,723	\$1,033,170	\$794,473
Carryover Balance as Percent of Operating Expenses	59.8%	57.5%	54.0%	35.6%

* Asset fee holidays from March 2021-July 2021 and October 2022-December 2022.

** 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; Department of Legislative Services

2. Plan Performance in Line with Benchmarks

As shown in **Exhibit 4**, MSRP plan options lost 11% in fiscal 2022, slightly worse than plan benchmarks. Three-, five-, and ten-year returns have slightly outperformed plan benchmarks.

Exhibit 4 MSRP Average Rates of Return Fiscal 2017-2022

	<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, 2022				
MSRP Options	-11.1%	5.8%	6.9%	8.4%
Benchmark Indices	-10.9%	5.7%	6.6%	8.1%
Annual Average Rates of Return as of June 30, 2021				
MSRP Options	30.7%	13.3%	12.8%	10.3%
Benchmark Indices	12.9%	12.9%	12.4%	10.0%
Annual Average Rates of Return as of June 30, 2020				
MSRP Options	6.2%	9.7%	6.9%	10.1%
Benchmark Indices	6.5%	9.6%	6.7%	10.0%

MSRP: Maryland Supplemental Retirement Plans

Source: Governor's Fiscal 2024 Budget Books

3. Membership Stable, but Contributions Dip

As shown in **Exhibit 5**, the number of employees contributing to their supplemental retirement plans decreased by nearly 14% in fiscal 2022, meaning only 41% of eligible members contributed to their plan. MSRP attributes this change to recent changes to hardship withdrawal regulations enacted under the SECURE Act of 2019 that expanded the eligible reasons for making a withdrawal from a retirement account, which can also lead to the suspension of contributions. **MSRP should comment on the drop in the number of total members and contributing members.**

Exhibit 5
MSRP Members and Contributing Members
Fiscal 2011-2022

<u>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%
2021	61,655	-0.1%	79%	35,463	3.7%	46%
2022	61,502	-1.3%	79%	31,629	-13.7%	41%

MSRP: Maryland Supplemental Retirement Plans

Source: Governor's Fiscal 2024 Budget Books

SB 6 would require MSRP to automatically enroll all employees hired on or after January 1, 2024, in a plan.

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

Appendix 1
Audit Findings

Audit Period for Last Audit:	Feb. 12, 2018 – May 15, 2022
Issue Date:	January 2023
Number of Findings:	2
Number of Repeat Findings:	1
% of Repeat Findings:	50%

Finding 1: MSRP did not establish sufficient controls over disbursements made from the bank account used to hold certain investments and process related transactions.

Finding 2: **MSRP did not ensure payroll payments processed by the State’s Central Payroll Bureau were consistent with the related MSRP time records and salary information maintained within the Statewide Personnel System.**

*Bold denotes item repeated in full or part from preceding audit report.

Appendix 2
Object/Fund Difference Report
Maryland Supplemental Retirement Plans

<u>Object/Fund</u>	<u>FY 22 Actual</u>	<u>FY 23 Working Appropriation</u>	<u>FY 24 Allowance</u>	<u>FY 23 - FY 24 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	14.00	14.00	14.00	0.00	0%
Total Positions	14.00	14.00	14.00	0.00	0%
Objects					
01 Salaries and Wages	\$ 1,613,023	\$ 1,667,108	\$ 1,716,006	\$ 48,898	2.9%
02 Technical and Special Fees	6,300	3,850	3,850	0	0%
03 Communication	19,347	6,250	6,250	0	0%
04 Travel	9,561	27,074	27,074	0	0%
07 Motor Vehicles	10,950	11,760	11,760	0	0%
08 Contractual Services	320,415	314,556	335,484	20,928	6.7%
09 Supplies and Materials	30,007	20,000	20,000	0	0%
11 Equipment – Additional	7,375	12,885	12,885	0	0%
13 Fixed Charges	166,913	167,964	173,060	5,096	3.0%
Total Objects	\$ 2,183,891	\$ 2,231,447	\$ 2,306,369	\$ 74,922	3.4%
Funds					
03 Special Fund	\$ 2,183,891	\$ 2,231,447	\$ 2,306,369	\$ 74,922	3.4%
Total Funds	\$ 2,183,891	\$ 2,231,447	\$ 2,306,369	\$ 74,922	3.4%

Note: The fiscal 2023 appropriation does not include deficiencies, targeted revenues, or across-the-board reductions. The fiscal 2024 allowance does not include contingent reductions or cost-of-living adjustments.

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