

G50L00

Maryland Supplemental Retirement Plans

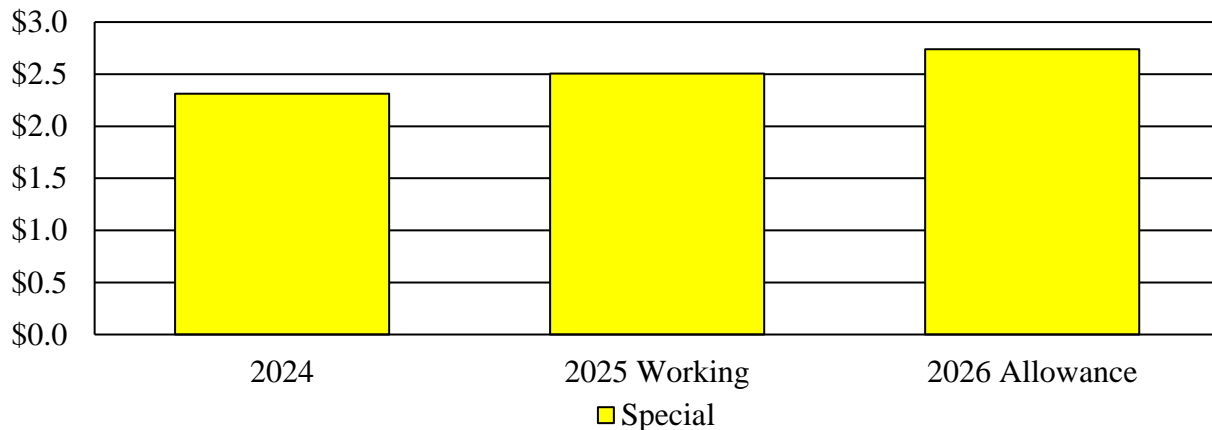
Program Description

The Maryland Teachers and State Employees Supplemental Retirement Plans (MSRP) are administered by a board of trustees, as established in Title 35 of the State Personnel and Pensions Article. The board has fiduciary 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 was relaunched in fiscal 2024. MSRP staff support the board of trustees' work in selecting investment options with the advice of its contracted investment advisors. MSRP's Executive Director and Deputy Executive Director oversee all agency staff, contractors, and operations. MSRP's Member Services Team provides webinars, on-site education sessions, and information to State employees and human resources personnel.

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 0.0425% 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 2026 Budget Increases \$0.2 Million, or 9.4%, to \$2.7 Million
(\$ in Millions)



Note: The fiscal 2026 impacts of the fiscal 2025 statewide salary adjustments appear in this agency's budget. The fiscal 2026 statewide salary adjustments are centrally budgeted in the Department of Budget and Management and are not included in this agency's budget.

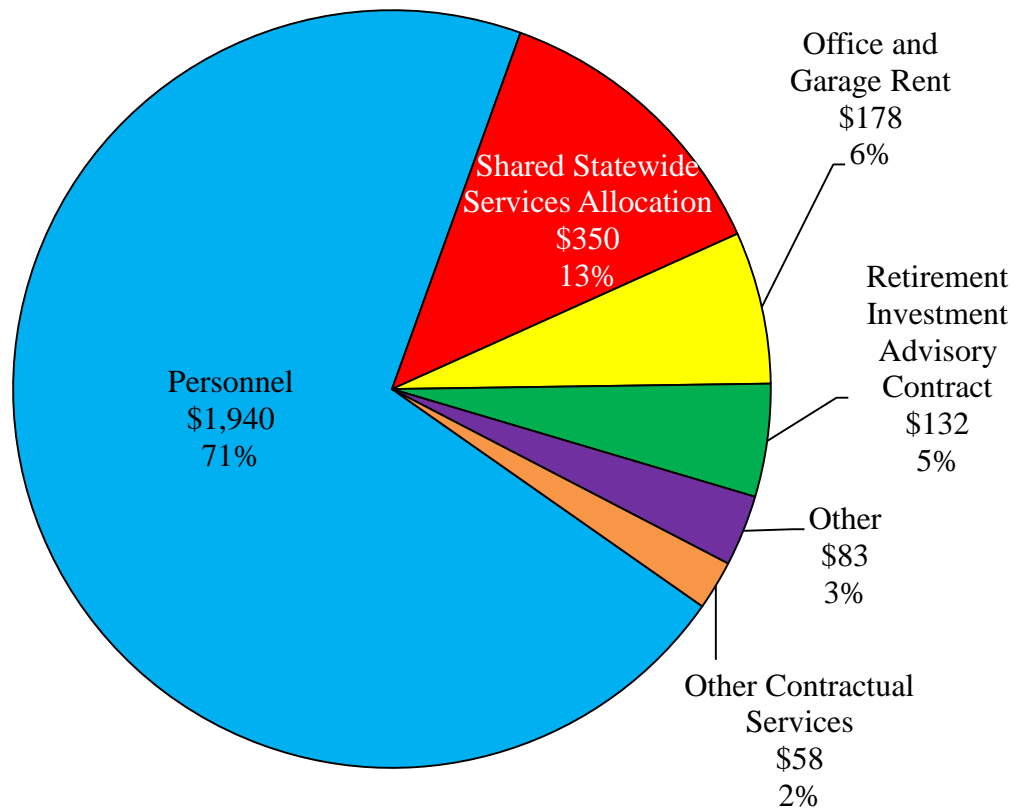
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Fiscal 2026 Overview of Agency Spending

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 (6%), contractual services (7%), and shared statewide services (13%). MSRP’s largest contract is for investment advisory services with National Financial Partners Retirement, Inc.

Exhibit 1
Overview of Agency Spending
Fiscal 2026 Allowance
(\$ in Thousands)



Source: Governor’s Fiscal 2026 Budget Books

Proposed Budget Change

The fiscal 2026 allowance increases by \$235,613 in special funds, as shown in **Exhibit 2**. Nearly all the budget changes are due to an increase in MSRP’s allocation for shared statewide services, particularly for Department of Information Technology services. Smaller contractual changes include the end of a one-time Wi-Fi upgrade and reductions in contractual auditing and investment advisor services.

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

| How Much It Grows: | <u>Special Fund</u> | <u>Total</u> |
|-----------------------------------|----------------------------|---------------------|
| Fiscal 2024 Actual | \$2,311 | \$2,311 |
| Fiscal 2025 Working Appropriation | 2,504 | 2,504 |
| Fiscal 2026 Allowance | <u>2,740</u> | <u>2,740</u> |
| Fiscal 2025-2026 Amount Change | \$236 | \$236 |
| Fiscal 2025-2026 Percent Change | 9.4% | 9.4% |

| Where It Goes: | <u>Change</u> |
|---|----------------------|
| Personnel Expenses | |
| Salary increases and associated fringe benefits including fiscal 2025 COLA and increments | \$78 |
| Other Changes | |
| Statewide shared services allocation | 235 |
| Financial auditing services | -19 |
| Wi-Fi enhancements | -24 |
| Investment advisor services | -35 |
| Total | \$236 |

COLA: cost-of-living adjustment

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

Personnel Data

| | <u>FY 24 Actual</u> | <u>FY 25 Working</u> | <u>FY 26 Allowance</u> | <u>FY 25-26 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 12/31/24 | 1.00 | 7.14% |
| Vacancies Above Turnover | 1 | |

- MSRP historically operates with low vacancies. As of January 1, 2025, only 1 administrative specialist III position is vacant. The position has been vacant for approximately two months.

Key Observations

1. Fiscal 2026 Budget Removes Funding for Match Program

On April 24, 2023, Governor Wes Moore signed legislation that reinstated the Deferred Compensation Match Program. Chapter 100 of 2023 mandated that the State provide an annual match of up to \$600 for State employees who participate in a supplemental retirement plan, effective July 1, 2023. In §19 of the fiscal 2024 Budget Bill, the General Assembly added \$11.95 million in general funds for this purpose, and the same amount was included in the fiscal 2025 legislative appropriation within the Department of Budget and Management (DBM). However, the Governor’s fiscal 2026 budget plan includes a planned reversion of \$11.95 million in fiscal 2025, eliminating the fiscal 2025 appropriation for the supplemental retirement match. The fiscal 2026 budget, as introduced, does not include funding for the match. DBM reports that agencies are being asked to use budgeted personnel funds to pay for the match. Enrollment remains open, and the match will continue to be paid to all who qualify.

Participation Expected to Grow Due to Match Program, Auto-enrollment

The match has driven significant growth in supplemental plan participation. The 401(a) plan, which is where the State’s match is deposited, added more than 2,000 new members in the

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first six months of the match being offered. MSRP reports that 4,556 new participants have enrolled as of June 30, 2024.

In fiscal 2024, the total number of plan members decreased slightly. However, the number of contributing members increased. As a share of the eligible population, both categories of membership declined. As shown in **Exhibit 3**, MSRP is projecting a significant increase in both plan membership and contributing members in fiscal 2025 and 2026. Proposed legislation, SB 270 of 2025, would auto-enroll all eligible State employees hired after January 1, 2026, and provide an opt-out for participants. MSRP estimates this would greatly increase enrollment in fiscal 2025 and 2026. However, such increases will be difficult to achieve if the auto-enrollment bill does not pass. **MSRP should comment on how much enrollment is expected to grow in fiscal 2025 and 2026 barring passage of the auto-enrollment bill.**

Exhibit 3
MSRP Members and Contributing Members
Fiscal 2011-2026 Est.

| <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% |
| 2021 | 61,655 | -1.1% | 79% | 35,463 | -3.2% | 46% |
| 2022 | 60,681 | -1.6% | 78% | 31,629 | -10.8% | 41% |
| 2023 | 61,026 | 0.6% | 70% | 34,500 | 9.1% | 44% |
| 2024 | 60,966 | -0.1% | 69% | 35,240 | 2.1% | 40% |
| 2025 Est. | 67,886 | 11.4% | 75% | 38,240 | 8.5% | 42% |
| 2026 Est. | 83,063 | 22.4% | 91% | 41,240 | 7.8% | 45% |

MSRP: Maryland Supplemental Retirement Plans

Source: Governor’s Fiscal 2026 Budget Books

2. Fund Balance Below Target

As shown in **Exhibit 4**, MSRP closed fiscal 2024 with a fund balance of approximately \$424,506. The amount represents 18.2% of the agency’s operating expenses, which is below the agency target of 25%. MSRP projects a fiscal 2025 fund balance of approximately \$895,930, or 35.8% of operating expenses.

Exhibit 4
Assets and Participants Fees
Fiscal 2022-2025 Est.

| | <u>2022</u> | <u>2023</u> | <u>2024</u> | <u>2025 Est.</u> |
|--|--------------------|--------------------|--------------------|--------------------|
| Net Total Assets (\$ in Billions) | \$4.66 | \$5.32 | \$5.91 | \$6.02 |
| Plan Administrator Fees | \$4,091,193 | \$3,783,753 | \$4,354,442 | \$4,467,257 |
| As % of Assets | 0.09% | 0.07% | 0.07% | 0.07% |
| Board Asset Fee | \$1,452,149 | \$1,629,367 | \$1,984,296 | \$2,594,849 |
| As % of Assets | 0.03% | 0.03% | 0.03% | 0.04% |
| \$0.50 Monthly Charge Per Account | 382,806 | 380,192 | 352,601 | 380,946 |
| One-time Settlement Revenue | 0 | 0 | 0 | |
| Adjustment for Timing Differences* | 0 | -344,634 | 90,398 | |
| Total Board Revenue | \$1,834,955 | \$1,664,925 | \$2,427,294 | \$2,975,795 |
| Operating Expenses | \$2,123,404 | \$2,320,912 | \$2,310,768 | \$2,504,371 |
| Adjustment for Timing Differences* | -208,896 | -44,853 | -23,950 | 0 |
| Total Operating Expenses | \$1,914,508 | \$2,365,765 | \$2,335,119 | \$2,504,371 |
| Carryover Balance | \$1,033,170 | \$332,331 | \$424,506 | \$895,930 |
| Carryover Balance as % of Operating Expenses | 54.0% | 14.0% | 18.2% | 35.8% |

* 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.

Note: Plan Administrator Fees are provided to Nationwide Retirement Solutions, Inc. directly and are not included in the calculation of the fund balance. The carryover balance for fiscal 2025 is projected.

Source: Maryland Supplemental Retirement Plans

3. Plan Performance Exceeds Benchmarks

As shown in **Exhibit 5**, MSRP plan options gained 16.2% in fiscal 2024, slightly better than plan benchmarks. Three-, 5-, and 10-year returns also performed slightly better than plan benchmarks. **MSRP should comment on the plans’ recent performance compared to performance in fiscal 2023, when performance lagged the benchmarks.**

Exhibit 5
MSRP Average Rates of Return
Fiscal 2022-2024

| | <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, 2024 | | | | |
| MSRP Options | 16.2% | 5.2% | 10.9% | 9.7% |
| Benchmark Indices | 15.3% | 5.1% | 10.2% | 9.0% |
| Annual Average Rates of Return as of June 30, 2023 | | | | |
| MSRP Options | -13.3% | 3.6% | 5.2% | 7.0% |
| Benchmark Indices | -12.6% | 4.1% | 5.0% | 7.6% |
| 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% |

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Source: Governor’s Fiscal 2026 Budget Books

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

**Appendix 1
Object/Fund Difference Report
Maryland Supplemental Retirement Plans**

| <u>Object/Fund</u> | <u>FY 24 Actual</u> | <u>FY 25 Working Appropriation</u> | <u>FY 26 Allowance</u> | <u>FY 25 - FY 26 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 | \$ 1,731,558 | \$ 1,861,535 | \$ 1,939,591 | \$ 78,056 | 4.2% |
| 02 Technical and Special Fees | 8,760 | 5,100 | 5,100 | 0 | 0% |
| 03 Communication | 15,709 | 12,600 | 12,600 | 0 | 0% |
| 04 Travel | 10,696 | 28,000 | 28,000 | 0 | 0% |
| 07 Motor Vehicles | 10,920 | 11,760 | 11,760 | 0 | 0% |
| 08 Contractual Services | 323,926 | 381,790 | 539,322 | 157,532 | 41.3% |
| 09 Supplies and Materials | 26,026 | 12,724 | 12,724 | 0 | 0% |
| 11 Equipment – Additional | 2,222 | 12,885 | 12,885 | 0 | 0% |
| 13 Fixed Charges | 180,414 | 177,977 | 178,002 | 25 | 0% |
| 14 Land and Structures | 938 | 0 | 0 | 0 | 0.0% |
| Total Objects | \$ 2,311,169 | \$ 2,504,371 | \$ 2,739,984 | \$ 235,613 | 9.4% |
| Funds | | | | | |
| 03 Special Fund | \$ 2,311,169 | \$ 2,504,371 | \$ 2,739,984 | \$ 235,613 | 9.4% |
| Total Funds | \$ 2,311,169 | \$ 2,504,371 | \$ 2,739,984 | \$ 235,613 | 9.4% |

Note: The fiscal 2025 appropriation does not include deficiencies, targeted revenues, or across-the-board reductions. The fiscal 2026 allowance does not include contingent reductions or cost-of-living adjustments.