November 30, 2011

The Honorable Edward J. Kasemeyer  
Chairman, Senate Budget and Taxation Committee  
5205 East Drive, Suite H  
Arbutus MD  21227

The Honorable Norman Conway  
Chairman, House Appropriations Committee  
121 Lowe House Office Building  
Annapolis MD  21401-1991

Dear Chairmen:

Attached is a report concerning the Maryland Transit Administration’s (MTA) Union Pension Sustainability as required in the 2011 Session Joint Chairmen’s Report, page 45. The narrative language requiring this report is as follows:

"Union Pension Sustainability: Based upon the Maryland Department of Transportation’s fiscal 2010 Comprehensive Annual Financial Report, the Maryland Transit Administration’s (MTA) union pension system had a funded ratio of 38.2% at the end of fiscal 2010. In addition, it had an unfunded Other Post Employment Benefits (OPEB) liability that totaled $431.5 million at the end of fiscal 2009. MTA should submit a report to the committees by December 1, 2011, that provides information on the following:

- what actions it will take to improve the funded ratio of the union pension system;
- the viability of having employees contribute to the system;
- what steps MTA can take without having to go through contract negotiations and what actions have to be negotiated;
- how it will begin to address its OPEB liabilities; and
- the impact of its pension obligations on the operating budget and farebox recovery."

My telephone number is 410-865-1000  
Toll Free Number 1-888-713-1414  
TTY Users Call Via MD Relay  
7201 Corporate Center Drive, Hanover, Maryland 21076
The Honorable Edward J. Kasemeyer
The Honorable Norman Conway
Page Two

If you have any additional questions or concerns, please do not hesitate to contact Mr. Ralign T. Wells, Administrator of the Maryland Transit Administration at 410-768-7274. Of course, you should always be free to contact me directly.

Sincerely,

[Signature]
Beverley K. Swaim-Staley
Secretary

Attachment

cc: The Honorable Thomas V. “Mike” Miller, President, Maryland Senate
The Honorable Michael E. Busch, Speaker, Maryland House of Delegates
Members of the Senate Budget and Taxation Committee
Members of the House Appropriations Committee
Mr. Ralign T. Wells, Administrator, Maryland Transit Administration
bcc: Ms. Sarah Albert, Library Associate, Mandated State Agency Reports, Library and Information Services Division, Department of Legislative Services (5 copies)
Mr. Matthew J. Bennett, Committee Staff, Senate Budget and Taxation Committee
Mr. Joe Bryce, Executive Director, Governor's Legislative Office
Mr. Jack Cahalan, Director, Office of Public Affairs, Maryland Department of Transportation
Mr. Dave Fleming, Director, Office of Finance, Maryland Department of Transportation
Mr. Patrick A. Fleming, Director, Office of External Affairs, Maryland Transit Administration
Mr. Bruce W. Gartner, Director, Office of Policy and Governmental Affairs, Maryland Department of Transportation
Ms. Chantelle Green, Committee Staff, House Appropriations Committee
Ms. Vickie Gruber, Chief of Staff, President's Office, Maryland General Assembly
Mr. Martin L. Harris, State Legislative Officer, Maryland Department of Transportation
Ms. Jaclyn Hartman, Legislative Analyst, Department of Legislative Services
Ms. Kristin Jones, Chief of Staff, Speaker's Office, Maryland General Assembly
Ms. Cathy Kramer, Department of Legislative Services
Ms. Diane Lucas, Budget Analyst, Department of Budget and Management
Mr. Jon Martin, Legislative Analyst, Department of Legislative Services
Ms. Shanetta Paskel, Deputy Legislative Officer, Governor's Office
Ms. Wonza Spann-Nicholas, Deputy Director, Office of Finance, Maryland Department of Transportation
Mr. Kurt Stolzenbach, Assistant Director, Office of Budget Analysis, Department of Budget and Management
A Report to the Maryland General Assembly
Senate Budget and Taxation Committee
and
House Appropriations Committee
regarding

Maryland Transit Administration
Union Pension Sustainability
(2011 JCR, p. 45)

The Maryland Transit Administration
The Maryland Department of Transportation

December 2011
Introduction

This report is in response to the 2011 Joint Chairmen’s Report request (page 45) which specifically states:

"Union Pension Sustainability: Based upon the Maryland Department of Transportation’s fiscal 2010 Comprehensive Annual Financial Report, the Maryland Transit Administration’s (MTA) union pension system had a funded ratio of 38.2% at the end of fiscal 2010. In addition, it had an unfunded Other Post Employment Benefits (OPEB) liability that totaled $431.5 million at the end of fiscal 2009. MTA should submit a report to the committees by December 1, 2011, that provides information on the following:

• what actions it will take to improve the funded ratio of the union pension system;
• the viability of having employees contribute to the system;
• what steps MTA can take without having to go through contract negotiations and what actions have to be negotiated;
• how it will begin to address its OPEB liabilities; and
• the impact of its pension obligations on the operating budget and farebox recovery."

Background: Union Pension System

The MTA Pension Plan is a noncontributory defined benefit pension plan covering employees represented by the Local 1300 Union (operators, mechanics, maintenance and storeroom personnel), the Local 2 Union (clerical workers such as accounting or maintenance clerks) and Local 1859 (part-time security guards and part-time fare inspectors) under collective bargaining agreements; management employees who transferred from positions covered by one of the collective bargaining agreements; and terminated employees who had at least five years of credited service and therefore are vested. Effective July 1, 2005, sworn Police Officers were transferred from the MTA Pension Plan to the Law Enforcement Officers Pension System (LEOPS) administered by the Maryland State Retirement Agency. As of June 30, 2011, there were 4,765 participants in the MTA Pension Plan as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirees and beneficiaries receiving payments</td>
<td>1,514</td>
</tr>
<tr>
<td>Terminated and vested plan members</td>
<td>442</td>
</tr>
<tr>
<td>Active members</td>
<td>2,809</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4,765</strong></td>
</tr>
</tbody>
</table>
The MTA Pension Plan provides for early, normal or disability retirement. Normal retirement is age 65 with five years of credited service or age 52 with 30 years credited service. Early retirement is at age 55 if the total of the participant’s age and credited years of service are equal to at least 85. Disability retirement is at any age with 5 years of service. If an employee terminates employment prior to becoming eligible for any type of retirement, the employee is vested and eligible for a deferred pension at age 65. There are no survivor benefits for a deferred vested pension. Also, if an active employee dies after reaching pension eligibility, the spouse is entitled to a 75% pension. The normal form of payment is a monthly pension payment to the pensioner for life or the surviving spouse for life depending on the survivor option selected. If the pensioner selects the “ten year certain” option the pensioner would receive a pension for life but if the pensioner dies the survivor would receive a pension for the remainder of the ten years after the pensioner’s retirement date.

The MTA Pension Plan is administered by the MTA; however, the Maryland State Retirement Agency invests the assets of this fund on behalf of the MTA. Retirees receive their monthly pension payments directly from the Maryland Transit Administration and the total amount of these payments is transferred from the Maryland State Retirement Agency to the MTA each month.

The Actuarial Valuation of the MTA Pension Plan as of June 30, 2011 showed the following:

- Total Actuarial Accrued Liability: $433,637,216
- Actuarial Value of Assets: $182,917,728
- Unfunded Actuarial Liability: $250,719,488
- Funding Ratio: 42.2%
- Normal Cost Contribution: $4,868,857
- Unfunded Actuarial Liability Cost: $28,418,542
- Total Annual Required Contribution: $33,287,399

Background: MTA Health Care Benefits for Employees and Retirees

The MTA currently funds both active union employees’ and retirees’ health care costs on a pay as you go basis. Union employees represented by Local 1300, Local 2 and Local 1859 participate in the MTA Health Care Plans. As employees or retirees incur expenses, the MTA pays out funds based on the appropriate benefit structure. The MTA does not currently have a separate fund set aside to pay for health care costs. Health care costs are the only significant Other Post Employment Benefit.

As shown below, the MTA provides health care coverage for over 2,500 active unionized employees and for over 1,200 retirees. Retirees make the same contributions as active employees; however, Medicare contributions are handled separately. The MTA spent approximately $10 million on health care costs for retirees in Fiscal Year 2011.
## MTA Union Health Care Data - 2011

<table>
<thead>
<tr>
<th></th>
<th>Medical</th>
<th>Drug</th>
<th>Dental</th>
<th>Vision</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Retirees</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Covered</td>
<td>1,208</td>
<td>1,153</td>
<td>1,155</td>
<td>1,193</td>
</tr>
<tr>
<td>Not Covered</td>
<td>46</td>
<td>101</td>
<td>99</td>
<td>61</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,254</td>
<td>1,254</td>
<td>1,254</td>
<td>1,254</td>
</tr>
<tr>
<td><strong>Active Employees</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Covered</td>
<td>2,537</td>
<td>2,390</td>
<td>2,381</td>
<td>2,411</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3,745</td>
<td>3,543</td>
<td>3,536</td>
<td>3,604</td>
</tr>
</tbody>
</table>

**FY 2011 Expenditures**

- $5,800,000  
- $3,600,000  
- $0  
- $300,000

* Dental care costs are included under Vision.

Healthcare benefits including Medical (PPO or HMO), prescription drug, dental and vision plans are provided to active union employees and to retirees meeting the following eligibility criteria:

- Age 65 with 5 years of service
- Age 52 with 30 years of service
- Age 55 with at least 30 years of service, including military and other qualifying service credits
- Disabled with 5 years of service
- Surviving spouse subsidized benefit for 3 years

In addition, both Full-Time and Part-Time Local 2 and Local 1859 employees can choose to enroll in the State Health Plan upon employment or during open-enrollment but once they have chosen the State Health Plan they cannot transfer to a MTA Health Plan. However, Part-Time employees must have one year of continuous service to enroll in the MTA Health Plan and are eligible for medical coverage for themselves only (not spouses or children).

In past experience, the MTA has found that 100% of the retirees select Medical Coverage, 92% select prescription drug coverage and 92% select dental and 95% select vision coverage. In addition, of the retirees selecting medical coverage, 54% of the employees also elect to cover a spouse.
The Actuarial Valuation of the MTA Retiree Healthcare as of June 30, 2011 showed the following:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Actuarial Accrued</td>
<td>$527,678,668</td>
</tr>
<tr>
<td>Liability</td>
<td></td>
</tr>
<tr>
<td>Actuarial Value of Assets</td>
<td>0</td>
</tr>
<tr>
<td>Unfunded Actuarial</td>
<td>$527,678,668</td>
</tr>
<tr>
<td>Liability</td>
<td></td>
</tr>
<tr>
<td>Funding Ratio</td>
<td>0.0%</td>
</tr>
<tr>
<td>Normal Cost Contribution</td>
<td>$17,323,755</td>
</tr>
<tr>
<td>Unfunded Actuarial Liability Cost</td>
<td>35,691,526</td>
</tr>
<tr>
<td>Total Annual Required Contribution</td>
<td>$53,015,281</td>
</tr>
</tbody>
</table>

**Improved Funding of the Union Pension System**

The MTA recognizes the need to set aside sufficient funds to cover the costs of pensions for current employees and has been working to increase the funding percentage. For each of the last four years, the MTA has made an additional contribution to the Union Pension System at the end of the year. Continuing this practice will assist in achieving a fully funded pension system more quickly. The 2011 valuation report suggests that if the MTA continues to fund the Normal Cost each year, but does not make any additional payments to the Union Pension System, the MTA will have a fully funded pension in 2035.

Asking union employees to contribute to the pension system is always an option but this action would need to be negotiated with each union. Any changes to a union employee’s wages, benefits, or work conditions must be negotiated. If management were to attempt to make a change to the pension system without negotiating it with the union in advance, the union would file a grievance and an arbitrator would be asked to decide. Based on the current contract language, the MTA would lose that grievance and would be prevented from making any changes outside of the negotiation process.

**Impact of Pension Obligations on Operating Budget and Farebox Recovery**

The MTA fully funds its annual pension obligation as well as the annual cost of retiree pension benefits as part of its annual operating budget. For the past four years, the MTA has contributed additional payments above the Annual Required Contribution in an effort to improve the funding level of the Union Pension System. The MTA intends to continue to meet these obligations and, as a result, the value of the future pension obligations will not have a negative impact on the MTA operating budget or farebox recovery. The MTA has included the level of funding needed in its current operating budget.
Options to Fund OPEB Obligation

The MTA continues to investigate options for addressing its OPEB liabilities; however, the recent slowdown in the economy has made it difficult to set aside funds for future healthcare costs. In the future, the MTA will consider establishing an OPEB trust, in cooperation with the Maryland State Retirement Agency (SRA). An OPEB trust could be managed similarly to how the MTA manages its Union Pension System. Many governmental entities throughout the country are considering establishing OPEB trusts, which are similar to those established for funding ordinary Pension Plans. An annual required contribution (ARC) is determined by an actuarial valuation of the cost of the health benefits provided. If MTA were to do this, appropriations to the MTA budget would be transferred each year to the trust account to pay not only for the current retiree health care costs, but also for some portion of the expected amount for future years. These funds would be invested and the proceeds would remain in the trust account and further reduce the cash that must be set aside. The FY 2011 actuarial evaluation estimates the annual amount required would be approximately $25.6 million (assuming a discount rate of 6.0%).

Conclusion

The MTA is prepared to fulfill its obligations to its union retirees by funding all promised pension and healthcare benefits. The MTA is on track to fully fund the Union Pension System and will continue to make progress in achieving a greater funding level. The MTA will also investigate additional options to begin to set aside funding to prefund the OPEB liability. The economic downturn limited MTA’s ability to work towards pre-funding the OPEB costs. Nonetheless, the MTA intends to pay pension and healthcare costs promised to today’s employees when they retire.