Report to the Maryland General Assembly
Financial Health of the Maryland State Retirement and Pension System
January 1, 2013

Reporting requirements in the Budget Reconciliation and Financing Act of 2011 direct the Department of Budget and Management (DBM) to report biennially, beginning on January 1, 2013, to the Governor and the General Assembly on the financial health of the Maryland State Retirement and Pension System (SRPS). DBM has reviewed the most recent actuarial valuation results, available as of June 30, 2012, and finds that trends in the financial health of the system are generally positive one year into reforms passed during the 2011 Legislative Session. The system's funded ratio exceeds projections made during reform deliberations, and the estimated year in which the system will reach 80 percent funded status has been reduced by one. The Department has no recommendations concerning modifications to the system's funding methodology or benefits structure at this early juncture following the 2011 reforms.

1.0 Background

Pension changes adopted during the 2011 session in Chapter 397 of 2011 (the Budget Reconciliation and Financing Act (BRFA) of 2011) altered the benefits for State employees and teachers and created a new budgeting mechanism to tackle the challenge of sustainable long-term system funding. Major components of the reform include:

- Current Members in the Teachers' Pension Systems (TPS), Employees' Pension System (EPS), State Police Retirement System (SPRS), and Law Enforcement Officers' Pension System (LEOPS)
  - Future service COLA capped at 2.5%, or 1% if 7.75% investment return target is not met.
  - TPS employee rate increased from 5% to 7%.
  - EPS employee rate increased from 5% to 7%.
  - LEOPS employee rate increased from 4% to 6% to 7%.
- Funding
  - Deducts $120M from reform savings reinvestment in FY2012 and FY2013 and caps the reform savings reinvestment to $300M per year thereafter.
- New Hires under Alternate Contributory Pension Selection (ACPS)
  - Benefit accrual rate decreased from 1.8% to 1.5%.
  - Future service Cost of Living Adjustment (COLA) capped at 2.5% or 1% if 7.75% investment return target is not met.
  - Final average compensation period increased from 3 to 5 years.
  - Vesting period increased from 5 to 10 years.
  - Normal retirement eligibility at age 65 with 10 years of service or Rule of 90.

In addition, Chapter 485 of 2012 revised the Judges' Retirement System (JRS), increasing the member contribution rate from 6% to 8% and adding a 5-year vesting requirement for members hired on or after July 1, 2012.

2.0 System Progress Following Reforms

The table below compares the funding status of the various Maryland retirement systems as of June 30, 2012 to projections made when the reforms were passed. The table also compares current projections for when the systems will be 80 percent and 100 percent funded to estimates made during the 2011 Legislative Session.

Comparison of Funded Ratio Experience and Projections

	Teacher's	Employee's	Police	Judges	LEOPS	Total
Funded Ratio as of June 30, 2012						
Actual	65.8%	58.9%	62.0%	78.6%	55.0%	**64.4%**
2010 Projected*	62.4%	56.0%	57.8%	63.0%	53.4%	**60.1%**
Difference	3.4%	2.9%	4.2%	15.6%	1.6%	**3.4%**
Projected Year 80% Funded is Reached						
2012 Projected	2022	2026	2027	2013	2020	**2023**
2010 Projected*	2023	2025	2027	2021	2022	**2024**
Difference	-1	1	0	-8	-2	**-1**
Projected Year 100% Funded is Reached						
2012 Projected	2031	2032	2032	2027	2029	**2031**
2010 Projected*	2032	2031	2034	2036	2031	**2031**
Difference	-1	1	-2	-9	-2	**0**

*Projected figures from the General Assembly Reform study conducted by Gabriel Roeder Smith & Company (GRS), dated April 20, 2011. Based on the June 30, 2010 valuation.

Actual experience that differed from actuarial assumptions, combined with the adoption of new demographic assumptions effective June 30, 2012, has resulted in the June 30, 2012 funded ratio exceeding projections from 2010 by 3.4 percent. Every member system's funded ratio in Fiscal Year 2012 exceeded 2010 projections. In addition, the projected year in which the system will reach 80 percent funding status has decreased by one to 2023. Finally, the projected year in which the system will reach 100 percent funding status has remained the same for the system as a whole, though it has declined somewhat for every member system except EPS.

3.0 Existing System Change Proposals

On December 12, 2012, the Joint Committee on Pensions voted to sponsor legislation which would change how the SRPS is funded. All current unfunded liabilities would be amortized over a 25-year closed period. The corridor funding method, under which system contributions are set at the prior year's rate plus 20 percent of the difference between the prior year's rate and the actuarial rate, would be phased out over 10 years.

4.0 Conclusion and Recommendations

Fiscal Year 2012 results reflect the first year of experience into reforms passed during the 2011 Legislative Session. These results have generally been positive, with progress towards achieving the statutory funding goals exceeding prior expectations. Based on these results, and the inherent long-term nature of pension system financing, the Department has no recommendations concerning modifications to the system's funding methodology or benefits structure at this early juncture following 2011 reforms.