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*Maryland*

*Teachers & State Employees  
Supplemental Retirement Plans*

457 • 401(k) • 403(b) • Match

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February 19, 2016  
House Committee on Appropriations  
The Honorable Maggie McIntosh, Chair

March 1, 2016  
Senate Committee on Budget and Taxation  
The Honorable Edward J. Kasemeyer, Chair

*Budget Position Statement and Response to Legislative Analysis*  
Michael T. Halpin, Executive Director  
Debra L. Roberts, Director of Finance

Honorable Chairpersons and Members of the Committees, thank you for the opportunity to comment on the status of the Maryland Supplemental Retirement Plans (MSRP) and respond to the issues in the Department of Legislative Services analysis. We appreciate that the legislative analyst concurs with the Governor's allowance.

First, a review of our recent history. As calendar year 2015 drew to an end, the value of invested assets in the Maryland Supplemental Retirement Plans declined slightly to \$3.32 billion in assets due to general market declines (see Attachment 1). Meanwhile, we have been proud to maintain a stable count of contributing employees after more than five years of decline (see Attachment 2). Most of those members are deferring income before tax withholding. But about five years ago we began accepting post-tax, Roth contributions in our 457(b) and 401(k) Plans. Today we have nearly 3,600 members who have accumulated \$17.7 million in Roth accounts that may be withdrawn tax-free after five years from initial deposit. The MSRP Board continues to offer multiple Plans, tax strategies and investment options for the diverse needs of State employees. And we credit our educational programs, expanded marketing and streamlined enrollments for on-going membership while countering the usual decrease of members through retirements, other terminations, and contrary money-decisions by individual employees.

The success of our seminars and communications is also reflected by increased contributions to MSRP accounts. By last December 2015 we had accumulated one year contributions of over \$163 million, a level that was unmatched in over five years (see Attachment 3). On the other hand, our ultimate mission is to supplement retirement income for our members. For a second year in a row, MSRP had a 10% increase in members taking payouts with a record distribution total of over \$214 million in calendar year 2015 (see Attachment 4).

We are committed to help employees throughout their career employment. We simplified the enrollment process to bare minimums which helps employees start saving at basic levels. We send Team MSRP representatives to State agencies in all counties for employee orientations, open enrollments and for themed seminars. We often pack the room by presenting subjects such as Social Security Benefits, Financial Planning for Women, and Getting your Financial House in Order. Our half-day workshops, like Building Wealth 101, are usually fully reserved in advance. We also make a statewide sweep to each county hosting special events like our Financial Fitness Days which we will present this Spring. And this year we have scheduled our annual MSRP SAVINGS\$ Expo in Baltimore in mid-May, rather than October. Our Expo includes representatives

from each investment option offered in the Plans, and over a dozen government agencies and non-profit organizations providing financial-related services. Employees can get personal help to enroll or to review their account, or they may attend any of several workshops. For the more senior employee we make several pre-retirement presentations and through our Plan Administrator we offer four Personal Retirement Consultants available to model various combinations of retirement investment and distribution strategies, and who sponsor periodic Retiree Breakfasts to review ongoing MSRP services and pertinent topics at regional locations.

***The Department of Legislative Services (DLS) recommends that the agency discuss the reasons for the underperformance of certain funds, particularly Goldman Sachs Large Cap Value and T. Rowe Price Mid Cap Value Funds, and whether any changes are planned to the menu of investment options.***

Performance numbers and an analysis of each fund's strategies and selections are discussed with the Board's investment advisor, Segal Rogerscasey, on a quarterly schedule including the February 22, 2016 meeting of the MSRP Board. Carefully following the MSRP Investment Policy, the performance reports for each fund over several periods and possibly other metrics are brought together for the Board's review.

The analyst has excerpted information from the third quarter of 2015, while the Board has just received the consultant's report as of the fourth quarter of 2015 which will be considered along with prior periods.

Looking first at Goldman Sachs Large Cap Growth, we note that for the second quarter of 2015 the fund was rated above-benchmark for all periods but 5-years. In the third quarter the fund's returns fell below benchmarks in all three time periods. With more recently published information, the fund reports above-benchmark, top quartile returns for the fourth quarter of 2015, but underperformance for the 3- and 5-year periods. Most of the fund's underperformance is derived from two calendar years, 2015 and 2011. During 2015 the fund's overweight to the information technology sector and certain energy holdings hurt the funds results. In 2011, the market was quite volatile especially late in the year and the fund was not able to keep up with the markets. Overall, however, the three-year trailing return has been in the second quartile when compared to peers.

Reviewing the T. Rowe Price Mid Cap Value fund, the analyst presents only the third quarter returns which were below benchmarks in all three periods. However, during the second and fourth quarters, the fund performed well for the current quarter and over each 1-year period. All of the underperformance is derived from calendar years 2013 and 2011.

The key message is that mutual funds options for MSRP are not selected, placed on watch or replaced on the basis of only one quarter of performance information. Consistent underperformance with changes in personnel and/or investment process would most likely move the Board to consider replacement over several reporting periods. At

present there are no plans to make any investment option changes.

***DLS recommends that the agency discuss the role that a match might play in encouraging members to save for retirement.***

History is clear. MSRP was able to nearly double employee participation at the initial implementation of the \$600 match program. For several decades, private employers have relied heavily on matching contributions in order to motivate contributions from lower level salary employees. There is no disputing that a match program adds value and can stimulate additional contributions to MSRP. When funding is available within the overall perspective of compensation and benefits for State employees, many would appreciate the return of the match program along with an expansion of the employee groups eligible for the match.

In the meantime, the MSRP Board continues to remind State employees of the importance of long-term retirement savings and to make affordable increases in savings, no matter how small. We continue the implementation of simplified enrollments with a solid education program to help all employees start early with retirement savings.

***DLS suggests that MSRP update the committees to the extent possible on potential fee holidays in calendar 2016. Also, MSRP should comment on whether the 0.05% board asset fee is appropriate given fee holidays over the past three fiscal years to use up fund balances, even with the recent downturn in invested assets.***

The MSRP Board has every intention of implementing their adopted plan to announce and carry out a four month board asset fee holiday in order to spend down the fiscal year to date reserve fund to approximately 25% of annual appropriation. However, with no other source of revenue available but participant accounts, we noted caution over recent market events before following through with the standing fee holiday decision. However, most recent financial reports indicate that on-going revenue collections appear sufficient to proceed with the FY 2016 closing board asset fee holiday announcement effective March 31<sup>st</sup>.

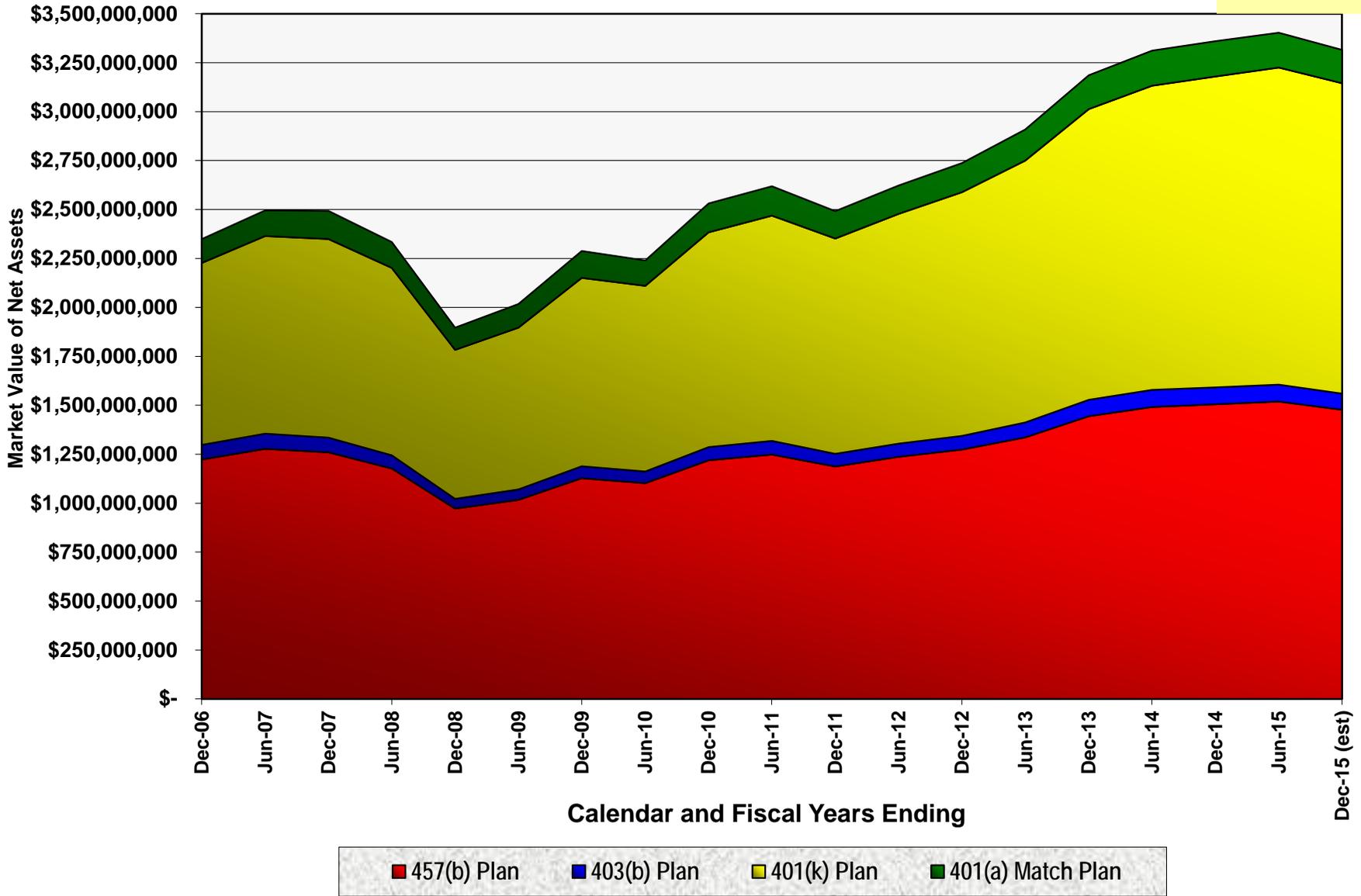
Staff have suggested that within a year or so MSRP assets may safely support a reduction in the Board's customary 0.05% asset fee. However, the recent six percent dip in Plans asset values does not present a firm basis to make such a decision at this time. Perhaps this time next year will be a better opportunity for such a decision.

In conclusion, the MSRP Board of Trustees and staff appreciate this careful review and discussion of the Plans, and are grateful for the longstanding support of the Committees in these efforts. We are committed to work with you to protect the long-term financial interests of State employees and their families.

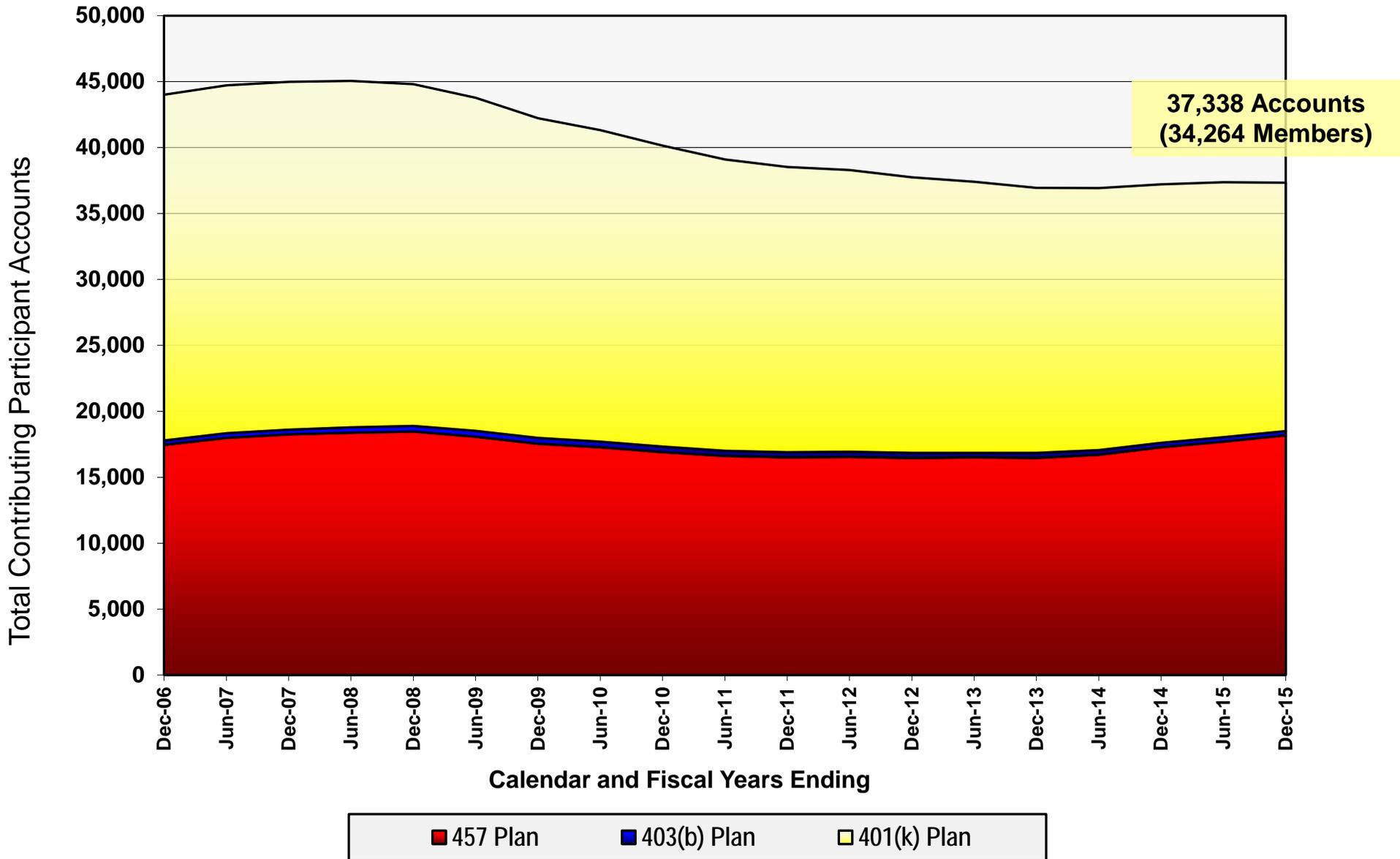
Attachments

# Invested Assets in the Maryland Supplemental Retirement Plans

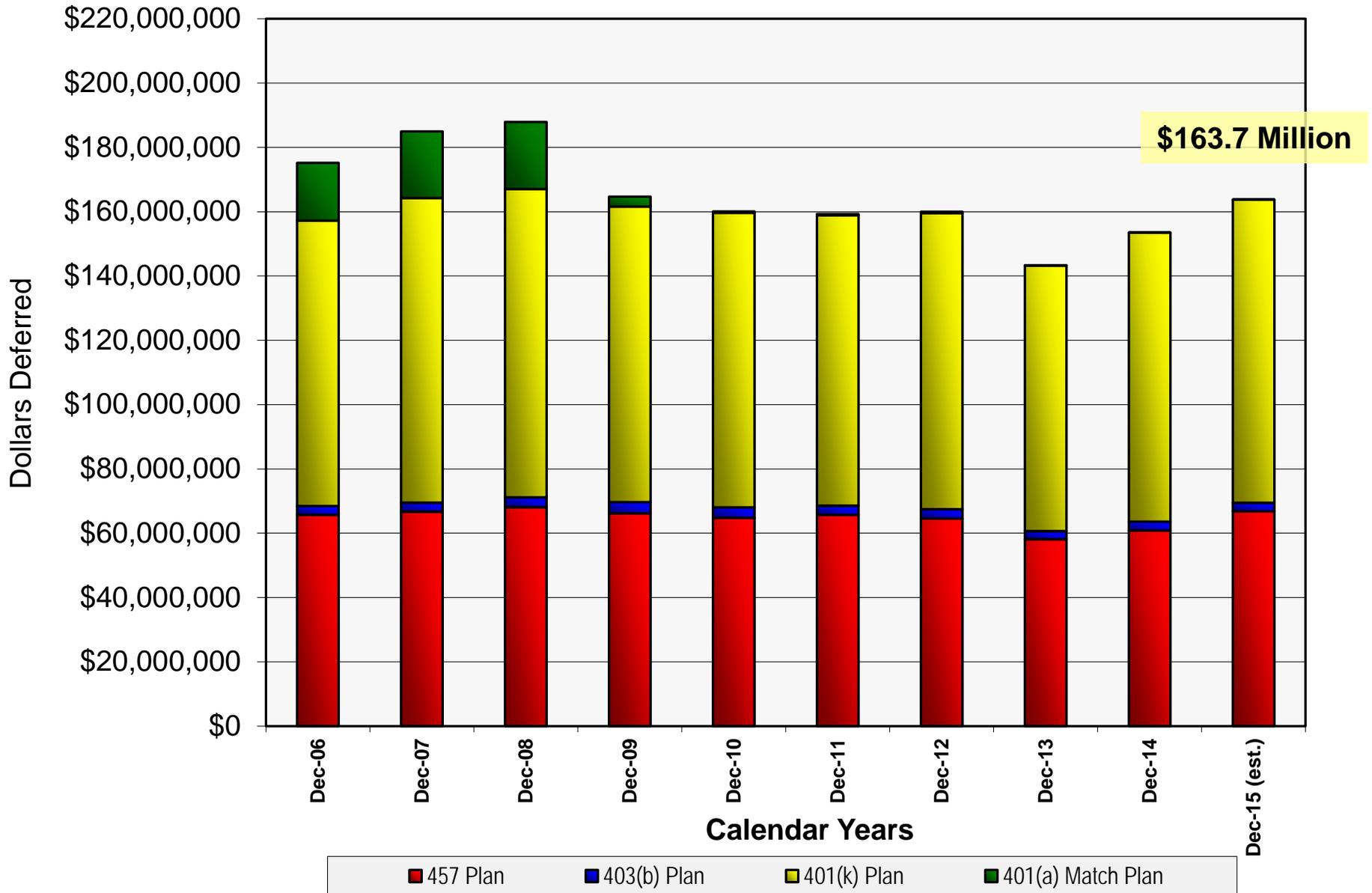
\$3.32 Billion



# Total MSRP Accounts with Active Contributions



# Amounts Contributed to all MSRP accounts



# Amounts Withdrawn from all MSRP accounts

