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*Maryland
Teachers & State Employees
Supplemental Retirement Plans*

457 • 401(k) • 403(b) • Match

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G50L00 – Maryland Supplemental Retirement Plans

January 31, 2017
Senate Committee on Budget and Taxation
The Honorable Edward J. Kasemeyer, Chair

February 3, 2017
House Committee on Appropriations
The Honorable Maggie McIntosh, Chair

Budget Position Statement and Response to Legislative Analysis
Michael T. Halpin, Board Secretary/Executive Director
Deborah L. Roberts, Director of Finance

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

I am glad to report that the plans ended the 2016 calendar year with an all-time high of \$3.52 billion in assets (see Attachment 1). This is about 5% higher than the prior year, the result of investment earnings that expanded towards the end of the year. While no one can predict results for the coming year, many experts are cautious about the market performance in the short-term.

We have been challenged for a half-dozen years by declining Plan participation rates. Throughout this time, the MSRP Board and staff took steps to expand our financial education program and improve employee access to the Plans. We reduced our enrollment form to a half-page and gave supplies to personnel staff in all agencies. We delivered more financial seminars in a greater variety of themes in more State agency locations. Our Plan Administrator, Nationwide Retirement Solutions, made significant improvements to both webpages and print materials. The result has been a somewhat stabilized participation rate (see Attachment 2).

Another result of our expanded financial education program was an unexpected announcement less than two weeks ago. We learned that MSRP and Nationwide jointly are finalists for "excellence in financial education" in a national competition awarded by the *Pensions & Investments* newspaper and its publisher Crain Communications. This competition is open to defined contribution plans across the country; top corporate plans and benefit consultants and the largest public plans all compete for one of these awards. We are proud, but not satisfied.

Considering the economic pressures experienced by so many in recent years, it is good that 44% of eligible employees are contributing Plan participants. But that is not good enough. We know that most State employees will need their own savings in addition to their pension and social security in order to achieve retirement readiness. And although membership may be stable, early estimates show a nearly 5% decrease in total contributions to the Plans for the year ending December 2016 (see Attachment 3).

So we redouble our efforts to reach out to and enroll additional members, while at the same time helping current members find ways to save more for their retirement and to make better money decisions. We conduct events in every jurisdiction in the State, rotating through different agency locations during those visits.

Now, in just a few weeks we will begin a statewide campaign to announce that we now have three methods for members to select investments with MSRP for the future. Our “easy as A-B-C” program will demonstrate how to:

- A.) Do it yourself – with our offered Asset Allocation Tool, the member may select from our updated spectrum of mutual funds and stable value option, and possibly select our included automatic rebalancing service to keep that allocation properly tuned for as long as desired. Or
- B.) One and done – with the target retirement date funds from T. Rowe Price, the member is permitted to anchor long term investments on their expected year of retirement, while investment professionals manage each fund to become more conservative through retirement. Or
- C.) Go pro – with a Nationwide ProAccount and an additional fee starting at 0.50%, this option is designed to take the guesswork out of investing, using the MSRP spectrum of investment options and based on the member’s age and risk tolerance, investment professionals will monitor and adjust the account to keep on track with the member’s retirement goals.

We expect to attract the interest of additional employees that never found a comfortable answer to the question “how should I invest my retirement savings.” We’ll encourage all current members to reconsider all three approaches and update their investment strategy. And we hope some formerly reluctant employees will be more confident in making their own allocation, or utilizing the target date retirement funds, or sign up for assistance from the new ProAccount option.

Meanwhile, those members who persevered with contributions during their working careers have started withdrawing more from the MSRP and hopefully enjoy some fruits of their efforts. The estimated total of MSRP distributions last year increased by about 5% (see Attachment 4) but did not detract from the continued growth of all Plans assets (see Attachment 1). Our Team MSRP works hard to reach out to retirees with assistance in preparing for retirement, in conserving savings and in modeling different withdrawal strategies.

The Department of Legislative Services analyst requests that MSRP should elaborate on the decision to replace the PIMCO Total Return Fund with the TCW Core Fixed Income Fund I Share when, according to Segal Advisors, PIMCO was on track to meet 1- and 5-year benchmarks.

The MSRP Board determines success for investment options in a comprehensive way that includes evaluating the managing organization, measuring compliance with stated

objectives and guidelines, and comparing performance against benchmarks and peers with a focus on long-term returns. The Board monitors short-term performance as only an increment to that success. These terms are established in the Board's written Investment Policy. In the case of the PIMCO Total Return Fund, the Board placed this fund on the watch list in November 2014 after the departure of two key employees (Messrs. El-Erian and Gross) and decreasing fund performance struggled alongside substantial fund withdrawals. The fund continued to experience instability in staff, cash flow and performance for eighteen months, when the Board requested a report of comparable alternate investment products from the investment consultant. The following Board meeting, in May 2016, recorded the decision that the TCW Core Fixed Income Fund is a better long-term alternative as an investment option to replace PIMCO Total Return Fund.

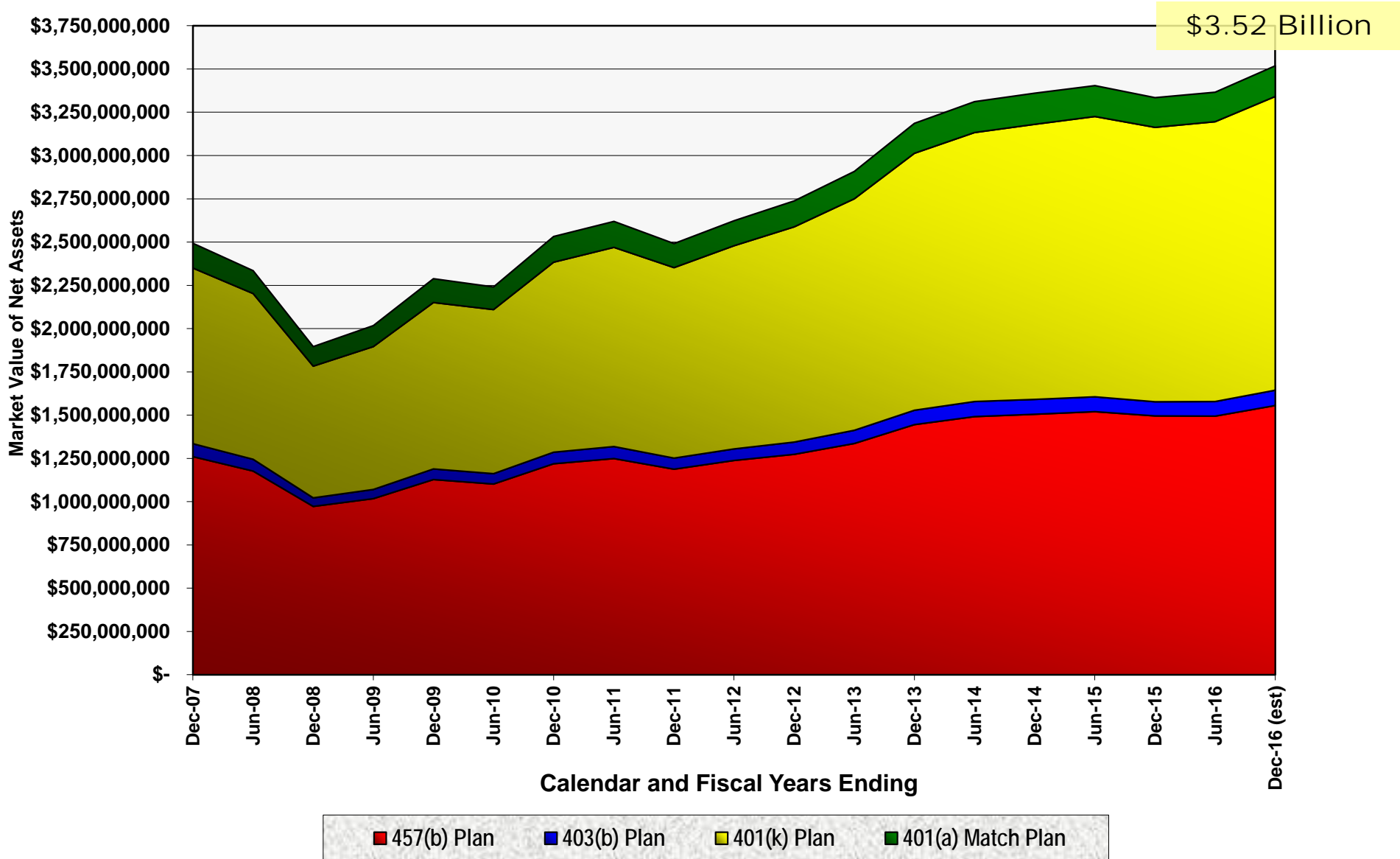
The Department of Legislative Services requests MSRP to comment on the feasibility of implementing a percent of salary match, a flat dollar-for-dollar match, and automatic enrollment and offer recommendations to both improve State employee participation in supplemental retirement plans and overall savings to increase retirement preparedness.

The MSRP Board supports the consideration of an employer match program at the earliest appropriate and affordable opportunity. There is absolutely no doubt that prior periods of employer matching were very successful in motivating State employee contributions and we would welcome the return of such an effective incentive. We have experience, however, only in dollar-for-dollar matching operations in the past with the critical assistance of the Comptroller's Central Payroll Bureau. We cannot provide an estimation of the requirements for a percent of salary match. On the other hand, automatic enrollment with enabling legislation including opt-out opportunities would help new employees to promptly start saving, but could serve as a recruitment disincentive unless it is timed to implement during a period of improved fiscal conditions and paired with an employer matching contribution.

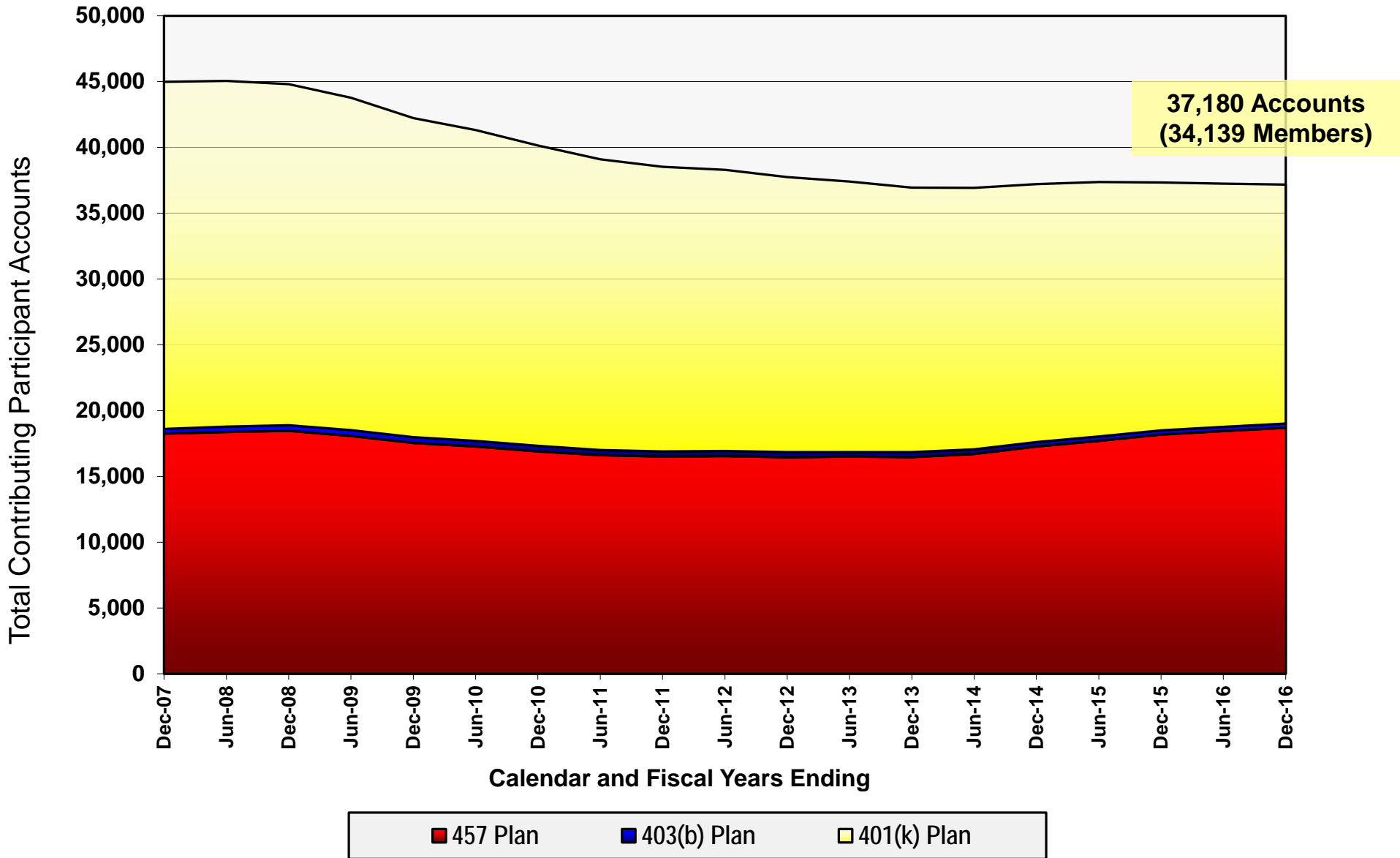
In conclusion, the Board of Trustees of the Maryland Supplemental Retirement Plans appreciates this careful review and discussion of the plans, and the Committees' longstanding support for the Board's efforts. We are committed to continuing to work with you as well as executive branch leaders to protect the long-term financial interests of State employees and their families.

Attachments

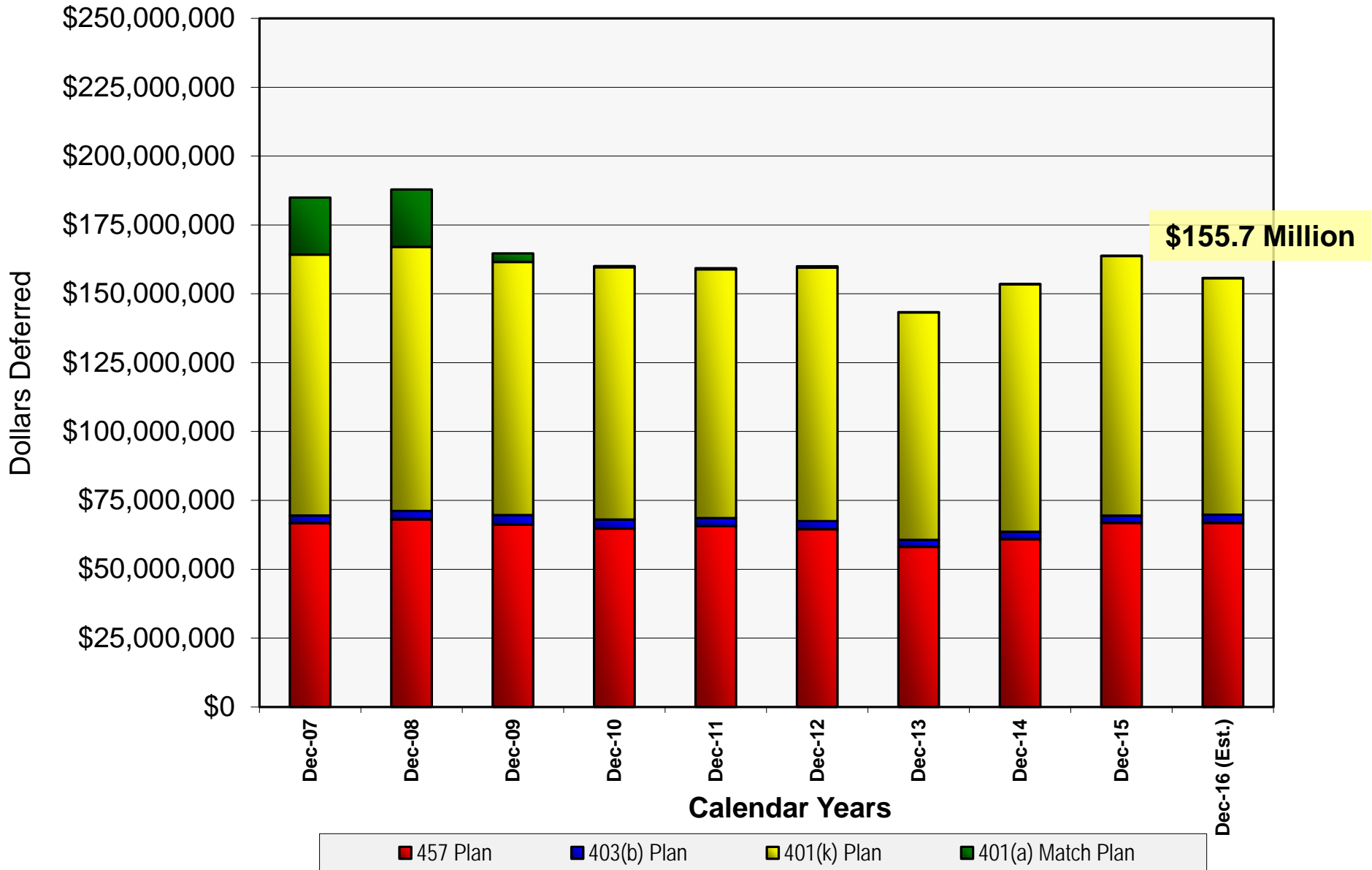
Invested Assets in the Maryland Supplemental Retirement Plans



Total MSRP Accounts with Active Contributions



Amounts Contributed to all MSRP accounts



Amounts Withdrawn from all MSRP accounts

