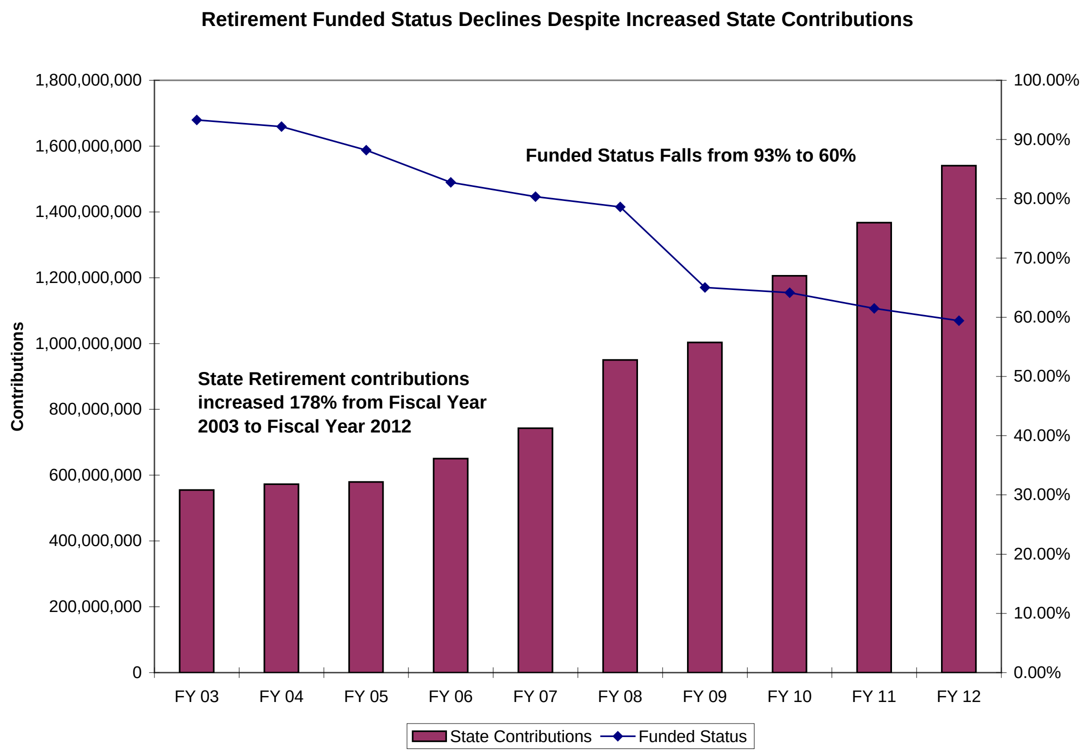
Retirement Reform

On April 8th the General Assembly gave final approval to modifications of Governor O'Malley's comprehensive retirement reform proposal that preserves a defined benefit for state workers, enhances funding of the pension system, and ensures the sustainability of pensions for state workers. A summary of the pension reform changes is provided below. Reform changes are effective July 1, 2011.

Why Reform Now?

- Maryland's Unfunded Pension Liability as of June 30, 2010 is $19 Billion.
- Due largely to investment losses, the pension system funding level has dropped from 93% in 2003 to a projected 60% in 2012.
  - The decline has occurred despite a near tripling of the state contribution from $555 million in FY 2002 to about $1.5 billion in FY 2012.
  - The U.S. Government Accountability Office suggests that a healthy system is at least 80% funded.



What are the Goals of Reform?

- Sustainable Retirement Benefits
- Preserve Defined Benefit for State Workers
- Reduce Unfunded Liability
- Increase System Funding Level

Do the Changes Impact Benefits for Current Retirees?

The pension reforms have no impact on benefits for current retirees.

Do the Changes Impact Benefits I Have Already Earned?

No. The proposal has no impact on benefits already earned by active or former employees.

Do the Changes Impact Benefits or Employee Contributions for Participants in the Employees' Retirement System?

No

Do the Changes Impact Benefits or Employee Contributions for Participants in the Teachers' Retirement System?

No

What Impact Will the Changes Have on System Funding?

Most savings from the reforms will be reinvested in the system to improve sustainability. The reforms will facilitate the pension systems return to financial health. 80% system funding – a benchmark for a healthy pension system – will be achieved by 2023.

Which Retirement Systems' Are Impacted by the Reforms?

New hires and active employees in the systems listed below may be impacted by the reforms.

	New Hires	Actives	Retirees
Employees' Pension System	**Yes**	**Yes**	**No**
Teachers' Pension System	**Yes**	**Yes**	**No**
Correctional Officers Retirement System	**Yes**	**Yes***	**No**
State Police	**Yes**	**Yes****	**No**
LEOPS***	**Yes**	**Yes**	**No**
Governor/Legislature/Judiciary	**Compensation commissions to review benefit/cost sharing structure**	**Compensation commissions to review benefit/cost sharing structure**	**No**

*Change limited to calculation of retiree COLA associated with future years of service.
**Changes limited to calculation of retiree COLA associated with future years of State service and interest earned on deferred retirement income for future enrollees in the Deferred Retirement Option Program.
*****LEOPS changes do not apply to Employees who transferred into LEOPS from the Employee Retirement System.

Pension Reform Changes Effective July 1, 2011

Employees Pension System / Teachers Pension System (EPS / TPS)

Current Actives – Changes effective for service earned after 7/1/2011

	Currently	**Approved Reforms - Effective 7/1/11**
Employee contribution	5% of salary	7%
Benefit multiplier	1.8%	1.8%
Cost of Living Adjustment	Annual Retiree COLA linked to Consumer Price Index (CPI) with a cap of 3% per year	COLA remains linked to CPI but capped at: 2.5% if target rate of return for investments in prior year is achieved. 1% if investment target not met ***applies to credit earned by current and new employees after 7/1/2011***

<u>Employees Pension System / Teachers Pension System (EPS / TPS)</u>

New Hires -- employed on or after 7/1/2011

	Currently	Approved Reforms - Effective 7/1/11
Employee contribution	5% of salary	7%
Benefit multiplier	1.8%	1.5%
Average Final Compensation	Calculated based on highest 3 consecutive years	Calculate using highest 5 consecutive years
Full Service Retirement	30 years or: age 65 with 2 years age 64 with 3 years age 63 with 4 years age 62 with 5 years	Rule of 90 (sum of age and service must equal 90) or age 65 with 10 years
Early Service Retirement	Age 55 with 15 years	Age 60 with 15 years
Vesting	5 years	10 years
Cost of Living Adjustment (COLA)	Annual Retiree COLA linked to Consumer Price Index (CPI) with a cap of 3% per year	COLA remains linked to CPI but capped at: 2.5% if target rate of return for investments in prior year is achieved. 1% if investment target not met ***applies to credit earned by current and new employees after 7/1/2011***

State Police Retirement System (SPRS)

	Currently	Approved Reforms - Effective 7/1/11
Average Final Compensation	Calculate using 3 years of highest compensation	Calculate using 5 years of highest compensation (***new hires only***)
Full Service Retirement	Age 50 or 22 years	Age 50 or 25 years (***new hires only***)
Vesting	5 years	10 years (***new hires only***)
Cost of Living Adjustment	Unlimited annual COLA linked to Consumer Price Index (CPI)	COLA remains linked to CPI but capped at: 2.5% if target rate of return for investments in prior year is achieved. 1% if investment target not met ***applies to credit earned by current and new employees after 7/1/2011***
Deferred Retirement Option Program	Accounts earn interest at rate of 6% compounded monthly Eligibility up to 28 years of service	Accounts earn interest at rate of 4% compounded annually Eligibility up to 29 years of service ***both apply*** **to** ***new accounts 7/1/2011***

Correctional Officers Retirement System (CORS)

	Currently	Approved Reforms - Effective 7/1/11
Average Final Compensation	Calculate using 3 years of highest compensation	Calculate using 5 years of highest compensation (***new hires only***)
Vesting	5 years	10 years (***new hires only***)
Cost of Living Adjustment	Unlimited annual COLA linked to Consumer Price Index (CPI)	COLA remains linked to CPI but capped at: 2.5% if target rate of return for investments in prior year is achieved. 1% if investment target not met ***applies to credit earned by current and new employees after 7/1/2011***

Law Enforcement Officers Pension System (LEOPS)

	Currently	**Approved Reforms - Effective 7/1/11**
Employee Contribution	4% of Salary	6% FY 2012 / 7% FY 2013 and beyond (***current and new hires)***
Average Final Compensation	Calculate using 3 highest consecutive years of compensation	Calculated using 5 highest consecutive years of compensation (***new hires only***)
Vesting	5 years	10 years (***new hires only***)
Cost of Living Adjustment	Annual Retiree COLA linked to Consumer Price Index (CPI) with a cap of 3% per year	COLA remains linked to CPI but capped at: 2.5% if target rate of return for investments in prior year is achieved. 1% if investment target not met ***applies to credit earned by current and new employees after 7/1/2011***
Deferred Retirement Option Program (DROP)	Accounts earn interest at rate of 6% compounded monthly	Accounts earn interest at rate of 4% compounded annually ***applies to new accounts only 7/1/2011***