G50L00 – Maryland Supplemental Retirement Plans

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January 29, 2019
Senate Committee on Budget and Taxation
The Honorable Nancy J. King, Chair

February 1, 2019
House Committee on Appropriations
The Honorable Maggie McIntosh, Chair

Budget Position Statement and Response to Legislative Analysis
Michael T. Halpin, Board Secretary and Executive Director
Debra 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.

I am glad to report that assets in the Plans grew to an all-time high of over $4 billion by the end of the 2018 fiscal year, but unfortunately lost about 6% in the market downturn during the last quarter of the calendar year (see Chart 1). At the same time, we accumulated our highest membership in eight years (see Chart 2) which we attribute greatly to the Board's strong educational program.

MSRP has been recognized nationally for a robust and innovative communication program carried out by certified Board staff delivering educational sessions directly to employees at or near their workplaces statewide. We work alongside an experienced team of Nationwide representatives who assist in carrying the retirement savings message to all employees and helping them personally with their accounts or enrollments. A few years ago, we simplified the enrollment process, and we continue to see some improvement in new employee sign-ups. On the other hand, while we have seen a slight increase in new enrollments and an increase in member contributions, the net number of contributing members has hardly changed as members leave employment or simply suspend their contributions.

Two years ago we began a county-by-county campaign to challenge employees to consider how and what they chose for their MSRP account investments. We present all employees with three approaches to investment decisions. First, we offer the traditional, do-it-yourself method of developing a diverse allocation for a personal investment strategy using any of fifteen authorized mutual funds and a stable value option. Second, we have the one-step method of selecting a target date retirement fund based on age. Third, we added a new option, a managed account service in which professionals select and directly adjust the member's investments for an additional fee. The result has been an ongoing, healthy reconsideration of investments by many members.

We continue to reach out to all employees with varied educational events and we encourage improved participation in the Plans. The Board works with its advisors to provide efficient and effective investment options and Plan services to all members.

The Department of Legislative Services analyst observes that staff changes and the justification for the submitted $77,000 deficiency in fiscal year 2019 are not clearly documented. The analyst also observes that based on the actual salary and fringe benefits reported by MSRP for fiscal 2019, it is extremely likely that the agency is under budgeted in fiscal 2020. ***The Department of Legislative Services recommends budget bill language restricting $77,000 in fiscal 2019 deficiency spending and $50,000 in special funds until MSRP submits a report providing accurate salary and fringe benefit projected costs in fiscal 2019 and 2020, and the agency submits budget amendments to adjust the appropriation for each fiscal year.***

Thanks to the analyst's observations, we have documented that MSRP salary and fringe costs for fiscal year 2019 are expected to exceed our earlier estimated deficiency request. It is likely that we failed to accurately resolve our position inventory data in implementing the new statewide budgeting system, and complicated the situation with a reclassification at the start of the 2019 fiscal year. The inaccuracy of MSRP position data would necessarily carry forward in the support for the fiscal 2020 appropriation. Meanwhile we monitor all personnel expenditures pay period by pay period without finding exception. We can also assure that necessary special fund revenues are available for these adjustments.

We have already worked closely with the Department of Budget and Management to provide the analyst with an acknowledged report of actual salary and fringe benefits for fiscal 2019. So we will continue to promptly document the necessary amendments for both fiscal years and submit all requested details for review. We strongly assert that restrictive budget language is totally unnecessary to enforce a process of documentation we fully acknowledge and which has already begun.

The analyst presents background information about Automatic Enrollment in a defined contribution plan as an option the State could consider to improve active deferral rates of employees. The Department of Legislative Services suggests that MSRP comment on the potential for implementing automatic enrollment in Maryland.

The Maryland Plans managed a remarkable increase in participation (40%) following enactment of the employer match program twenty years ago. Unfortunate economic pressures reduced, interrupted and finally ended funding in 2010. Ongoing educational efforts, coordination with agency personnel statewide, simplified enrollment and support with investments, and positive markets have brought us closer but not equal to those old participation records.

Auto enrollment has been implemented in some governmental defined contribution plans for new employees, with a starting contribution of 1 to 3% of salary directed to a default investment such as a target date retirement fund. Some have included, as experts recommend, an annual auto escalation feature to raise the contribution percent gradually to a ceiling rate. Those auto enrollment plans report multi-year results of about 20% in increased contributing members.

Those government plans with no plans to implement auto enrollment have anticipated difficulties with passing necessary enabling legislation, negative employee reactions, possible disagreements with employee organizations, and concerns of being too heavy handed.

In Maryland, we do not yet have the payroll system capability of offering percentage calculated supplemental retirement contributions. And, as a voluntary employee benefit, MSRP is not provided with any automated data transfer about employees— new or old, salaries or transactions—in order to automatically enroll them.

The potential for implementing auto enrollment in Maryland would hinge upon the passage of enabling legislation which includes the authorized exchange of employee data with MSRP and sufficient time to acquire percentage payroll deduction capability. It's unknown whether a data exchange would incur any substantial costs, but funding of an expanded employer match with the auto enrollment program would vastly improve acceptance of the program and even further increase the participation results.

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

Chart 1: Total Assets in Member Accounts in the Maryland Supplemental Retirement Plans

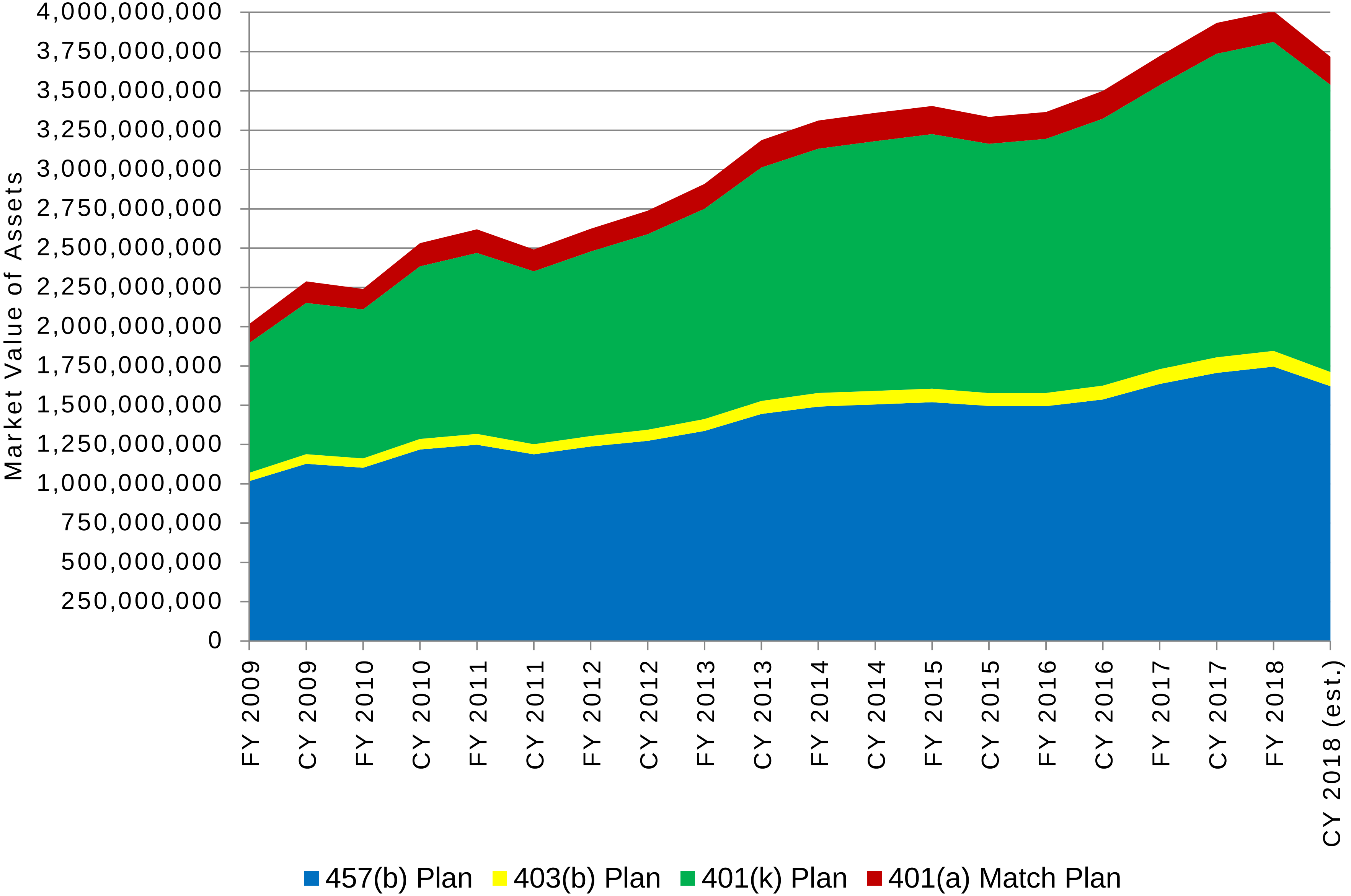

Chart 2: Accounts in each of the Plans: Currently Represents about 61,010 Members