G50L00 – Maryland Supplemental Retirement Plans

MSRP

Maryland
Teachers & State Employees
Supplemental Retirement Plans

457(b) 401(k) 403(b) Match

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Email us at
Info.MSRP@maryland.gov

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March 2, 2021

The Honorable Guy J. Guzzone, Chair
Senate Budget & Taxation Committee

The Honorable Maggie McIntosh, Chair
House Appropriations Committee

Budget Position Statement and Response to Legislative Analysis
T. Eloise Foster, Chairperson
Ronda Butler Bell, Board Secretary/Executive Director
Debra L. Roberts, Chief Financial Officer/Director of Finance

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

The calendar year 2020 was a year of unprecedented change for the agency. As you are all aware, last April, our long-serving Executive Director, Michael T. Halpin, passed away unexpectedly. Almost concurrently, the nationwide response to the COVID-19 pandemic necessitated a national lockdown, with many non-essential employees having to work from home. On March 13, 2020, all State agencies, including MSRP, were required to immediately transition to telework. Within two weeks, all Plan and agency functions, including those performed by our partners, were conducted entirely online, without interruption and with no adverse impact to Plan participants.

I am pleased to report that, following a national search, the Board of Trustees (the "Board") appointed a new Executive Director, Ms. Ronda Butler Bell, effective January 4, 2021. Ms. Bell has over 29 years of administrative experience in corporate, federal, and state organizations.

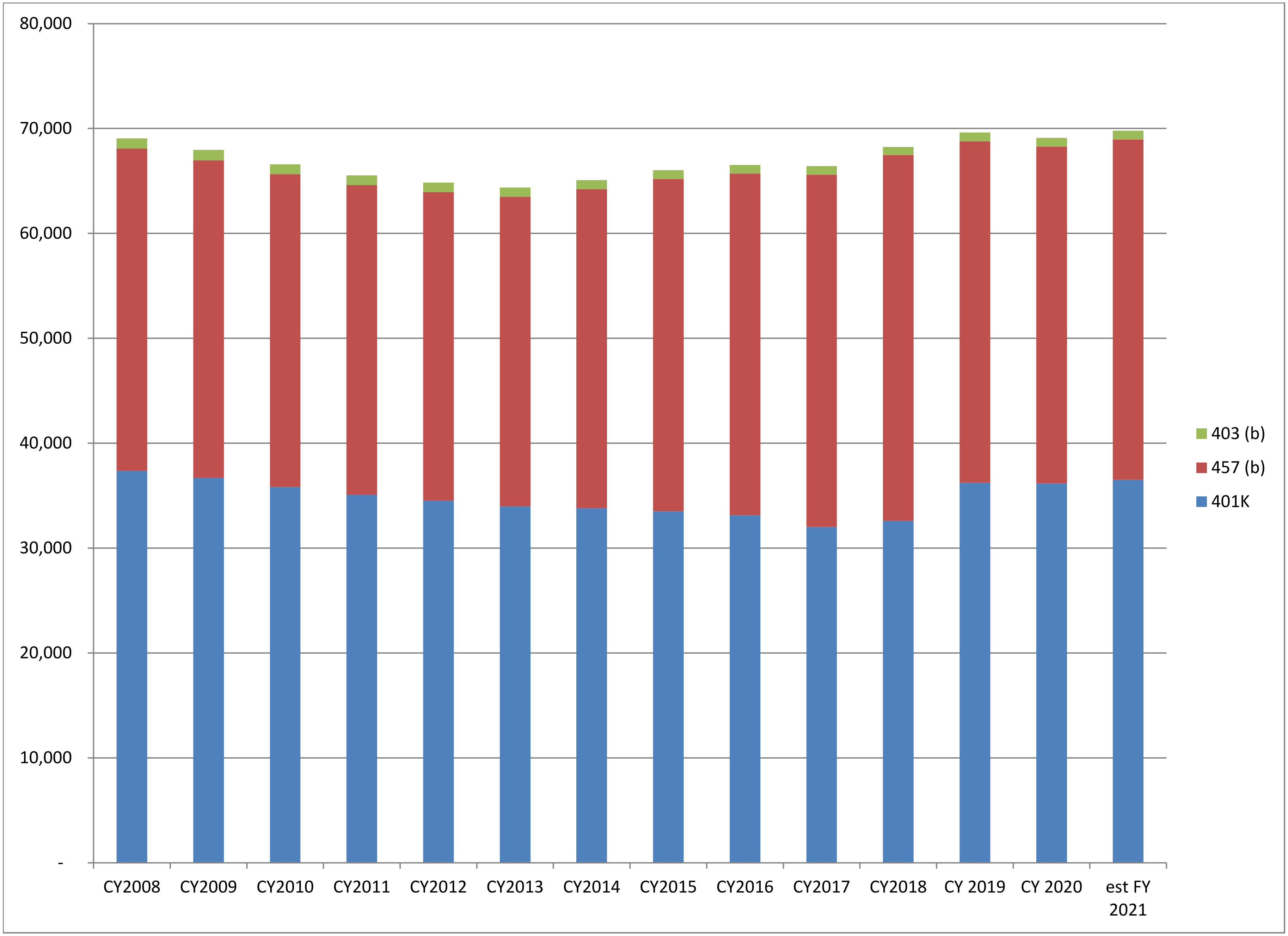
Beginning in March 2020, the COVID-19 pandemic spread throughout the globe, impacting nearly every economy on earth, causing massive unemployment, increasing death rates, and volatile market conditions. MSRP has weathered this storm and has experienced an increase in assets. The Coronavirus Aid, Relief, and Economic Security (CARES) Act, enacted March 27, 2020, included provisions for retirement plan participants impacted by the pandemic such as tax-favored coronavirus-related distributions of up to $100,000, including the waiver of the additional 10% early withdrawal tax on such withdrawal and the ability to spread tax payments on such withdrawal over three years and recontribute the withdrawn amount over three years; increased loan limits and suspension of loan payments; and waiver of required minimum distribution payments in calendar year 2020. The Board adopted all of the CARES Act provisions for all of the Plans (457, 401(k), 403(b), and 401(a) Match), except that loans are not permitted from the 401(a) Match Plan. In calendar year 2020, the Plans distributed $7.3 million dollars in corona virus-related distributions to over 2,500 participants.

I am pleased to announce the Plans ended calendar year 2020 with an estimated $4.9 billion in assets (see attachment 1). That amount was an all-time high for the Plans and represented a 12.2% increase over 2019 Plan assets. The increase was primarily attributable to strong investment returns, especially during the final quarter of 2020, in U.S. equity, which experienced returns exceeding +20.9% for the S&P 500 index, and non-U.S. equity, which experienced returns of +15.9% for MSCI.

At the end of fiscal 2020, the board of trustees had a reserve fund equal to 60% of the annual appropriation, more than double the fund balance target of 25%. The board has permanently reduced asset fees from 0.05% to 0.0425% effective October 1, 2019. However, it is estimated that the balance will be nearly three times the target at the close of fiscal year 2021. **The Department of Legislative Services recommends that MSRP discuss why a fee reduction or fee holidays are not warranted.**

In 2020, Governor Hogan imposed significant spending controls for executive branch agencies and departments. Although revenues increased, as expected, due to more stable market conditions, decreased spending resulted in the board reserve climbing to $1.5 million as of January 31, 2021. The agency's fiscal office generally conducts annual fee and reserve analysis during June of each year. However, since the reserve continues to grow, the fiscal office reviewed the fees and reserve and, at the most recent board meeting, recommended a four-month Board asset fee (i.e., the Board's 0. 0425% portion of the asset fee) holiday. This fee holiday is expected to reduce the reserve to an estimated $963,354 or 36.7% of the annual appropriation. ***The market conditions and high reserve balance does warrant consideration of a temporary asset fee holiday.***

We will continue our commitment to maintaining dedicated and personal effort to educate and encourage Plan participation and overall financial health for employees in a virtual format. The Board appreciates this careful review and discussion of the Plans and the Committees' continued support for the Board's efforts. We look forward to working with you and the executive branch leaders to protect the long-term financial interests of State employees and their families.



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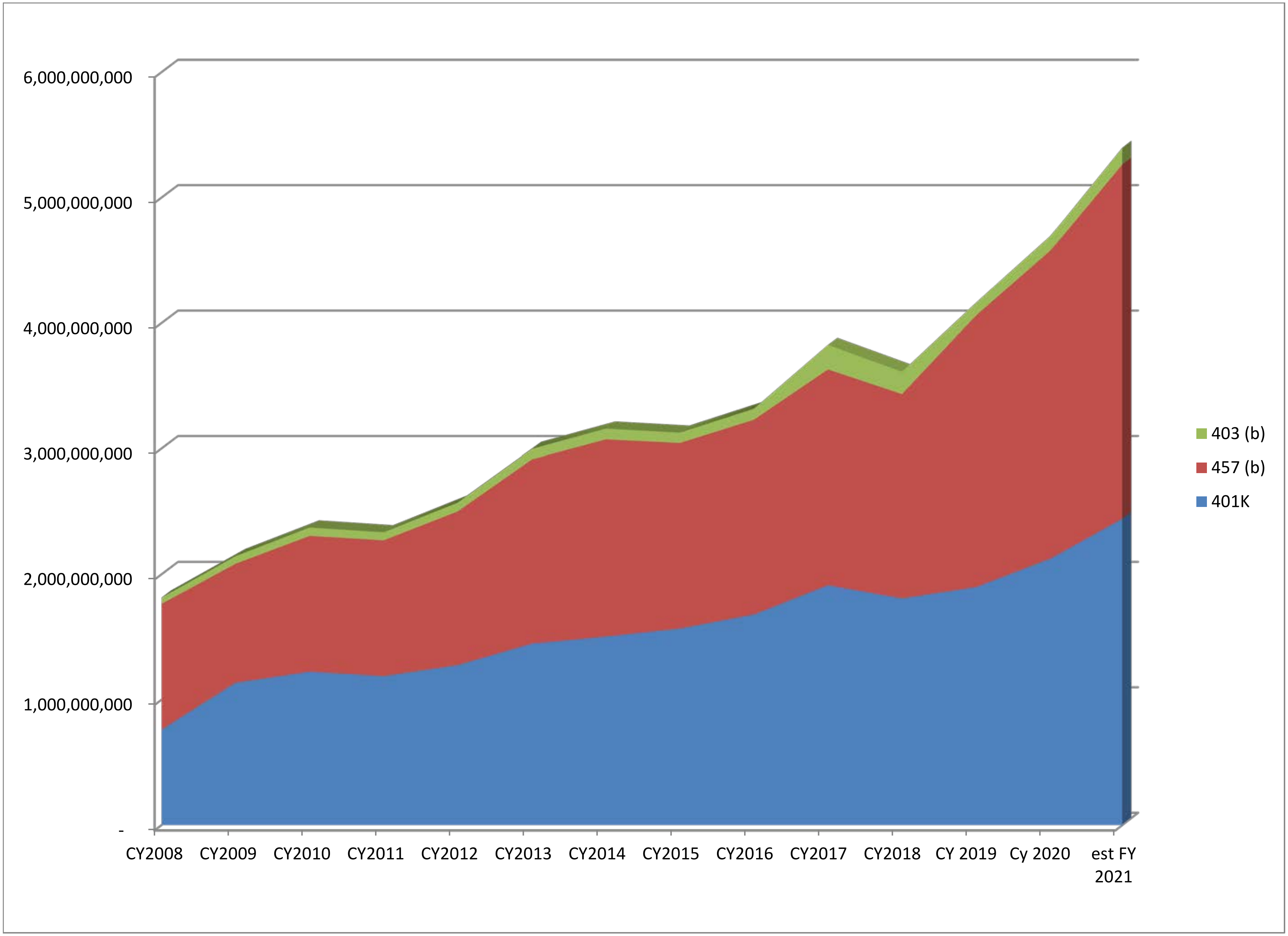
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