G50L00 – Maryland Supplemental Retirement Plans

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1-800-545-4730
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February 8, 2022
Senate Committee on Budget and Taxation
The Honorable Guy J. Guzzone, Chair

February 18, 2022
House Committee on Appropriations
The Honorable Maggie McIntosh, Chair

Budget Position Statement and Response to Legislative Analysis
The Honorable T. Eloise Foster, Board Chair
Ronda Butler Bell, Executive Director & Board Secretary
Debra L. Roberts, Deputy Executive Director & Chief Financial Officer

Honorable Chairs and members of the Committees, thank you for this opportunity to comment on the Maryland Teachers & State Employees Supplemental Retirement Plans ("MSRP") and respond to the issue raised in the Department of Legislative Services' ("DLS") analysis. We appreciate that the legislative analyst concurs with the Governor's allowance.

We are pleased to announce that the Plans ended the 2021 calendar year with an estimated $5.6 billion in assets (*see attachment 1*), representing a 5% increase from the prior year. **The increase is the result of strong investment returns, particularly in U.S. equities. Equity returns exceeded 28% for the S&P 500 index and non-U.S. equity returns of 11.3% for the MSCI (Morgan Stanley Capital International) index.** Although COVID-19 and its variants may have impeded growth in some sectors of the U.S. economy, the Plans have consistently remained firm and continue to grow.

At the end of FY 2021, MSRP had a reserve fund balance of 54%, which is more than double the target of 25%. The MSRP Board of Trustees (the "Board") permanently reduced asset fees from 0.05% to 0.0425%, effective October 1, 2019, and provided a fee holiday for the first five months of calendar year 2021. These strong returns benefit Plan participants but produce higher fee revenues (as the fees are a percentage of assets); therefore, it appears that the fund balance will again exceed the 25% target at the close of FY 2022. ***DLS recommends that MSRP comment on whether there will be another fee holiday in fiscal 2022 or 2023.***

Historically, the Board has established a minimum 25% reserve held in trust with the State Treasurer's Office. The target reserve is the minimum level of funding necessary to support agency operations for a maximum of six months with no other revenue source.

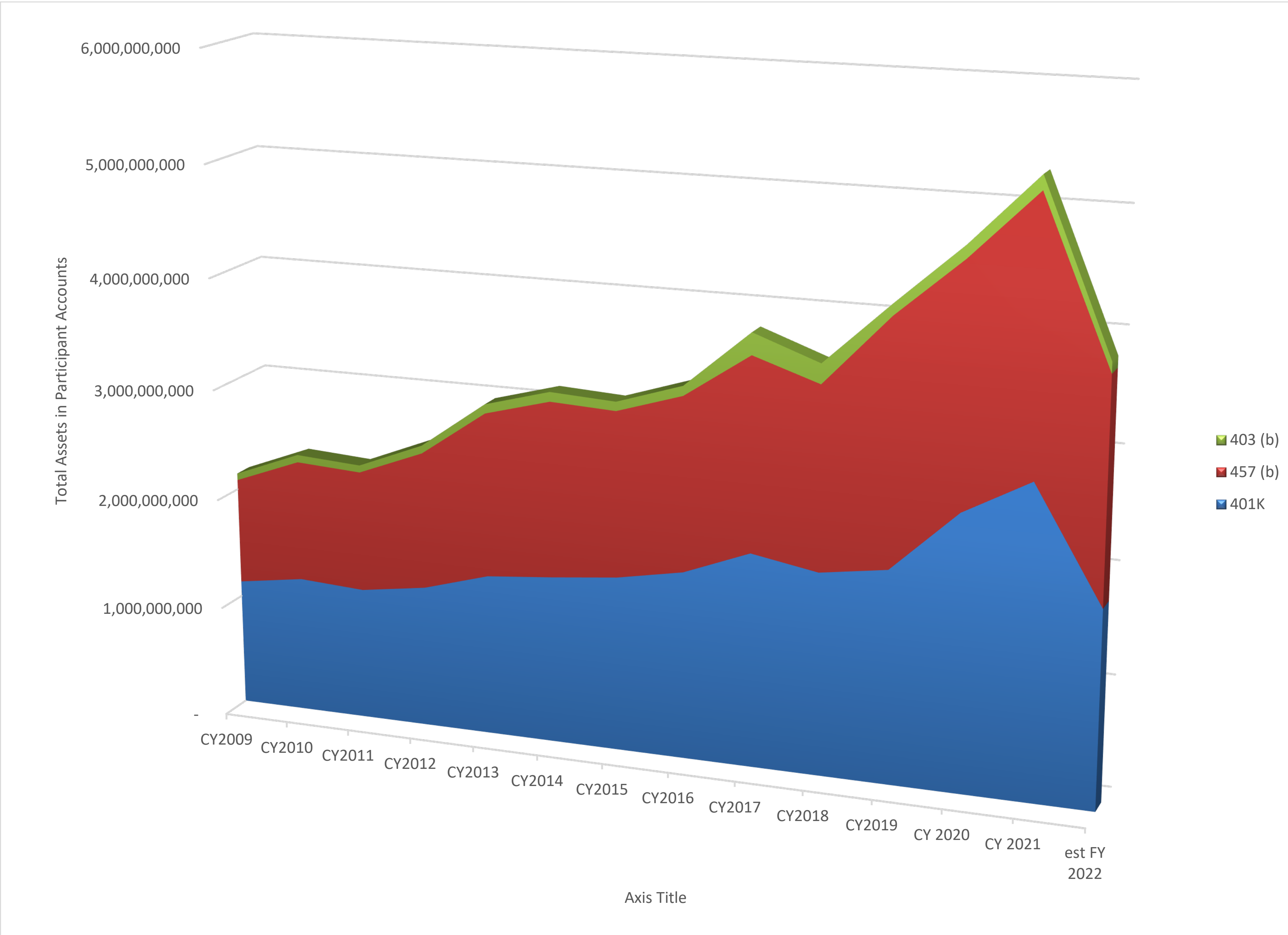
In 2021, the Board approved a five-month asset-based fee holiday for the Plans. This fee holiday reduced the reserve by $480,000 or 28%. However, to address the legislative concerns regarding fees charged to participants, an alternative fee arrangement was presented for review during the January 2022 MSRP Board of Trustees Meeting. MSRP staff suggested a mid-year review of the fee to determine how regular asset-based fee holidays might impact MSRP's financial reserves.

Alternative proposals are currently being analyzed by staff (who will present the recommendation at the February 2022 MSRP Board Meeting and request that the Board make its decision at that time). The goal of the analysis is to determine whether regular 3-month fee holidays can be incorporated automatically, in support of the following objectives:

- stabilize the reserve;
- maintain consistent revenues that support operational expenses; and
- provide participants with regular asset-based fee holidays.

We will continue our firm commitment to educate and support State employees who are Plan members and encourage Plan participation by those employees who have not yet enrolled in the Plans. MSRP seeks to help employees improve the future of their financial health by ensuring that they have all the tools and resources needed to adequately prepare for retirement.

The MSRP Board of Trustees appreciates the opportunity to discuss our budget request with the Committees. We appreciate the support that you have previously afforded MSRP and agree with the DLS recommendation to approve the Governor's FY 2023 allowance. We respectfully ask for your support of this allowance, which will help MSRP protect the long-term financial interests of our hard-working State employees and their families.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Axis Title
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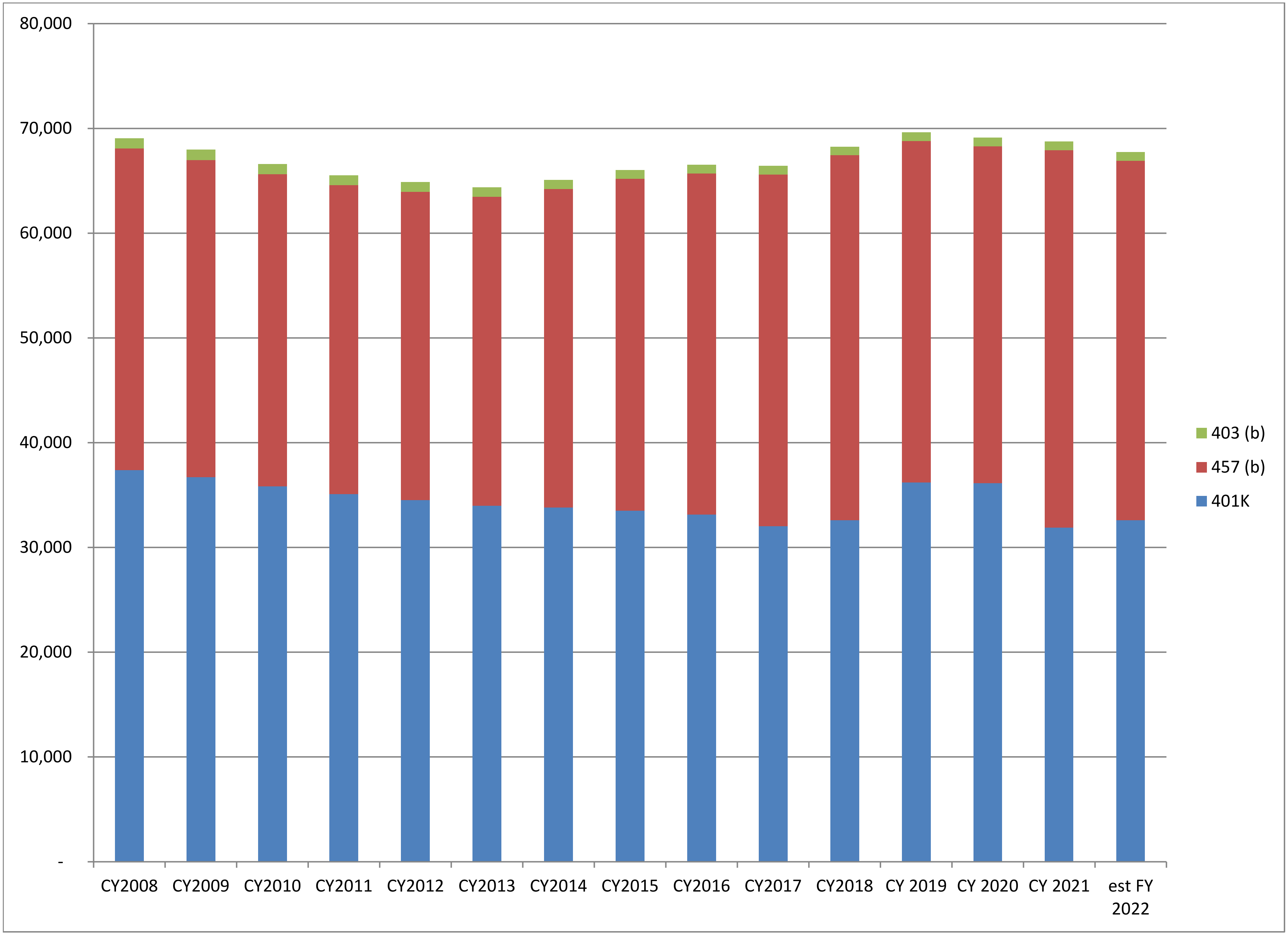
401K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