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Maryland State Retirement Agency
Fiscal Year 2026 Operating Budget
Response to Department of Legislative Services Analysis

Testimony by
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Senate Budget and Taxation Committee
Chair Guy Guzzone
February 04, 2025

House Appropriations Committee
Chair Ben Barnes
February 07, 2025

Good afternoon, Chairman and members of the committee. As the Executive Director of the State Retirement Agency (Agency), it is my pleasure to present and discuss, on behalf of the System's Board of Trustees, the Agency's proposed budget for fiscal year 2026.

The Agency carries out two equally important business functions: the administration of member and retiree benefits, and the management of invested assets. The continued success of these two core processes is of critical importance to the over 425,000 active, vested, and retired State and local participating employees, teachers, police officers, judges, law enforcement officers, correctional officers, and legislators whom we serve.

Investment Management

The Maryland State Retirement and Pension System (System) generated a return of 6.93%, net of fees, for the fiscal year ending June 30, 2024, beating its policy benchmark of 6.34% as well as the actuarial assumed rate of 6.80%. After the payment of benefits, the market value of invested assets increased by approximately $3 billion, from $65.2 billion on June 30, 2023, to $68.2 billion on June 30, 2024, resulting in a funded ratio of 73.43% for fiscal year 2024.

Net Returns as of June 30, 2024

	1 year	3 year	5 year	10 year
Total Plan	6.93%	2.28%	7.02%	6.32%
Policy Benchmark	6.34%	1.61%	6.13%	5.75%

According to preliminary performance reports as of December 31, 2024, the System's total investment portfolio returned 3.18%, net of all fees and expenses, on investments for fiscal year-to-date, trailing the policy benchmark of 3.26% by 8 basis points, or 0.08%. The market value of assets as of December 31, 2024, was approximately $69.5 billion.

The System's investment performance during fiscal year 2024 is summarized in the following exhibit:

	FY 2024 SRPS Performance	FY 2024 Benchmark Performance	SRPS Allocation June 30, 2024
Public Equity			
Custom Benchmark	17.9%	17.3%	30.8%
U.S. Equity	24.6%		14.2%
Russell 3000		23.1%	
International Equity	12.6%		8.1%
MSCI World ex U.S.		11.2%	
Emerging Markets Equity	9.9%		4.9%
MSCI Emerging Markets		12.6%	
Global Equity	19.6%		3.6%
MSCI AC World Index		19.4%	
Private Equity	5.2%		21.6%
Custom State Street PE		6.3%	
Rate Sensitive	-1.1%		16.5%
Custom Benchmark		-1.2%	
BBG U.S. Gov't Long Index		-5.6%	
BBG Securitized		2.4%	
BBG Corporate		4.6%	
BC U.S. TIPS Index		2.5%	
Credit/Debt Strategies	9.8%		8.9%
Custom Benchmark		10.3%	
BBG High Yield		10.4%	
S&P LSTA Leveraged Loan		11.1%	
BBG EM Hard Currency Sov		8.5%	
BBG EM USD Corporate		7.7%	
Real Assets	-2.8%		14.2%
Custom Benchmark		-5.4%	
Absolute Return			
Custom Benchmark	5.9%	8.4%	5.8%

Multi-Asset			
Custom Benchmark	9.9%	6.3%	0.4%
Cash			
Custom Benchmark	5.6%	5.6%	1.8%
TOTAL FUND	**6.9%**	**6.3%**	**100%**

The **public equity portfolio** returned 17.9%, compared with a return of 17.3% for its blended benchmark. The program has four components: U.S Equity, International Developed Equity, Emerging Markets Equity and Global Equity.

The U.S. public equity portfolio returned 24.6%, exceeding the return of the Russell 3000 Index by 148 basis points. The international equity portfolio returned 12.6% compared to 11.2% for its benchmark, the Morgan Stanley Capital International (MSCI) World ex-U.S. Index. The emerging markets equity program returned 9.9%, underperforming the 12.6% for its benchmark, the MSCI Emerging Markets Index, a broad measure of stock performance in emerging markets. The global equity portfolio achieved a return of 19.6%, exceeding its benchmark, the MSCI All-County World Index, by 0.2%.

The **rate sensitive portfolio** returned –1.1%, compared to –1.2% for its blended benchmark comprised of the Barclays US Government Long Bond Index, Barclays US Investment Grade Corporate Index, Barclays US Securitized Index, and Barclays US TIPS Index.

The **credit/debt strategies portfolio** returned 9.8% compared to 10.3% for its blended benchmark. The portfolio has a blended benchmark of 89% U.S. (80% BC U.S. Corporate High Yield Index, 20% S&P LSTA Leveraged Loan Index), and 11% non-U.S. (50% Bloomberg/Barclays Emerging Markets Hard Currency Sovereign Index and 50% Bloomberg/Barclays Emerging Markets U.S. Dollar Aggregate Corporate Index).

The **real assets portfolio** returned –2.8%, compared to –5.4% for its blended benchmark, which consists of approximately 67% real estate (NCREIF ODCE Index + 40 basis points) and 33% natural resources and infrastructure (20% S&P Global Natural Resources Index and 80% Dow Jones-Brookfield Infrastructure Index).

The **absolute return portfolio** returned 5.9%, trailing the 8.4% return of its benchmark, which consists of event-driven, global macro and relative value strategies.

The **private equity portfolio** returned 5.2%, compared to the 6.3% return of its benchmark, the State Street Private Equity Index (one quarter lag). The program is expected to produce returns in excess of the public equity markets.

The System's **Terra Maria** program is comprised of smaller investment management firms—including many that are minority and/or women owned—focusing primarily on equity and fixed income investments. For fiscal year 2024, the program returned 9.1%, outperforming its custom benchmark return of 8.9%. Since inception, the Terra Maria program has achieved an annualized return of 5.1%, compared to 4.9% for the benchmark.

The transition to internal management will result in significant fee savings to the System, net of the additional expenses to develop the program. As of June 30, 2024, ten internal portfolios valued at $13.6 billion had been established: U.S. TIPS, U.S. Long Government Bonds, Russell 1000 large-cap U.S. equity, investment-grade corporate bonds, U.S. small cap equity, U.S. securitized bonds, International large-cap equity, International equity value factor strategy, public equity infrastructure and cash. Staff is currently in the development process to implement additional internal portfolios that are more actively managed.

Business Operations

The Business Operations Office continues to enhance the Agency's business processes, building on the success of the MPAS+ Project completed in June 2022. Over the past year, significant advancements have been made. The Employer Payments Version 2 rollout automated the calculation of administrative and teachers' appropriation fees, streamlined the creation of quarterly invoices, and enabled online payment through the Employer Portal. Another initiative, the implementation of Account Validation Services (AVS) in collaboration with M&T Bank, allows accurate and instant validation of participants' direct deposit information. Additionally, the Update Participant Contact Information feature was introduced, enabling internal staff to update participants' mailing addresses, phone numbers, and email addresses in real-time.

Several initiatives are under development and are targeted for rollout by the end of fiscal year 2025. These include implementing Identity Proofing to enhance user registration and secure transactions in the mySRPS portal, automating contribution withdrawals to streamline refund processes and improve customer service, automating member enrollments to enable employer self-service and reduce staff workload through Straight Through Processing (STP), and launching Member Document Storage Version 3 to provide a transparent tracking system for managing incoming documents via mail, email, and the Employer Portal.

Looking ahead to fiscal year 2026, the focus will shift to rolling out the Account Audit Application Version 2, which will automate adjustments to payroll information based on audits or employer-reported updates. Another major initiative is the creation of an online retirement wizard, allowing members to apply for service retirement via the secure mySRPS portal.

These initiatives align with the Agency's long-term vision to reduce paper-based processes and streamline operations. By automating key workflows, the Agency aims to improve customer service for members and participants, enhance operational efficiency, and achieve cost savings while maintaining high-quality work standards.

Information Systems

The Agency's data and voice technology platforms continue to operate reliably with virtually no unscheduled production downtime. Most Agency IT staff are State employees; however, daily operations continue to be supported by three consulting and technical services systems development supplemental staffing task order contracts. Those three contracts also provide programmer support for ongoing MPAS+ process improvements that are designed to deliver more efficient services to our participating members and employers.

Most of the technology changes since fiscal year 2019 have been driven by the Business Process Re-Engineering project discussed in the prior section. The "behind-the-scenes" infrastructure associated with each new business function and each new point of integration represents considerable effort to ensure technical efficacy and appropriate IT security enhancements and refinements addressing both on-premises and cloud-based technologies (a “hybrid” environment).

The Agency issued an RFP for an identity proofing software-as-a-service, to further enhance ***mySRPS*** account creation and to facilitate higher-risk transactions with plan participants, as a strategy to mitigate fraud. This procurement has been successfully awarded, and an implementation phase has begun with the selected vendor. As noted above, funding is being requested to include this annual expense in the Agency’s software baseline budget.

Implementation of ***mySRPS*** and Employer Portal are marked improvements in service delivery to members and employers. Both have been accordingly received, as noted above. These services also represents a sophisticated and complicated technology achievement, requiring complicated server and database configurations, and a significant amount of linking software to securely, reliably, and efficiently integrate a workflow that must cross seamlessly among various high-availability platforms, protected by secure application firewalls, using enhanced data and log file storage, all fully backed up between the Agency’s primary computing site and the disaster recovery site in Annapolis.

As a result of the MPAS+ project’s focus on the digital automation transformation of a paper centric business model, the Agency has experienced a significant increase in data storage and retention requirements. Additional storage needs have also been a result of the Agency’s strategy to bring the investments portfolio management in-house. Data driven investment decision making requiring significant data consumption has contributed to the support needs. To ensure continuity of operations and to maintain existing service levels to our participants, employers and staff, an upgraded database and storage solution was procured and in the process of deployment.

Cybersecurity is an Agency priority. Information Systems is in a state of continuous improvement as it dedicates resources to the monitoring and response to potential threat events. Having the tools and staff resources to achieve this objective is a pre-requisite for success against an evolving threat. The Agency’s existing firewalls are a first line of defense in maintaining its’s security posture. An End-of-Life (unsupported) date of August 2025 is scheduled for our existing primary firewalls. In preparation for this event, resources were requested to replace the existing firewall solution. A FY2025 budget amendment provided sufficient resources to procure these mission critical devices. An implementation plan is in development to ensure the Agency’s digital assets are secure.

During most of the past year, as with all of State government, the Agency continues to adapt to the post-pandemic working model, supporting, and improving work-from-home and video-conferencing scenarios. While further equipment continues to be required for people whose home configurations were inadequate for full-time work, causing some delays in service delivery, overall Agency functions continued unabated. Additional steps have been taken to improve the Agency’s work-from home posture. A mobile computing imitative was begun to equip staff with the devices needed enable transparent computing either at home or in the office.

Retaining and recruiting highly skilled information technology professionals to support this ever-evolving architecture is a priority for the Agency. An Annual Salary Review was successfully implemented for fiscal year 2024 in partnership with the Department of Budget and Management ‘s Division of Classification and Salary. The goal to assist in the recruitment of qualified staff as well as ensure that current staff are sufficiently compensated in a competitive job marketplace is being realized. Highly successful recruitments were conducted over the past fiscal year allowing the agency to fill critical vacancies in the areas of systems development, cybersecurity and database administration.

The Investment Division continues its progress towards internal portfolio management. The Information Systems Division supports this progress with commensurately capable workstation platforms, improved connections to external resources, integration with Internet-based investments management platforms. The Agency has seen the implementation of a "trading desk" for Investment Division. Information Systems continues to support that implementation, as well as new technologies designed to provide more efficient data consumption and more timely investment decision making.

Benefits Administration

Active membership increased from 198,647 at the end of fiscal year 2023 to 205,044 at the end of fiscal year 2024. We continue to see steady and consistent increases in the number of annuitants. At the end of fiscal year 2024, the number of retirees and beneficiaries receiving benefits increased 1% to 176,171 compared to 174,609 in the previous fiscal year. Over a ten-year period, the total number of annuitants has grown slightly more than 20% from 147,850 at the end of fiscal year 2015 to 176,171 at the end of fiscal year 2024. As of December, our current number of retirees and beneficiaries receiving monthly allowances is more than 178,874 because of new retirements since July 1, 2024.

In order to streamline the services we provide to our participants, we have completed additional strategic moves within the Benefits Administration Division during the fiscal year. In order to support those moves and achieve the goals of the Division we requested the conversion of four contractual positions to permanent employees. This conversion will assist our Division in retaining trained and dedicated to staff to assist in performing mission critical tasks for our participants. One employee works in our Special Projects Unit and focuses on locating and retiring our members who are deferred vested including individuals that need to be retired based on the Required Minimum Distribution rules. An employee in our Data Control Unit is responsible for handling the all-important task of reconciliations and finalizing the monthly retirement check register that creates the payments for our payees each month. The third employee works in our Benefits Processing Unit and is vital to processing retirement applications, working on revisions of retirement accounts and reconciling those revisions. The fourth and final employee works in our Special Projects Unit and manages the Power of Attorney and Guardianship process for our Division. This position is imperative due to the population of the Agency and the volume of requests that are received. Each of these positions are necessary to the productivity of the Benefits Administration Division and contribute to our ability to administer benefits to the System's participants.

Member Services

The Agency has advanced plans for reorganization, having removed Member Services from the Benefits Administration division and has hired a Member Services Administrator in FY25, who is scheduled to begin employment with the agency in January 2025. The Member Services Administrator will be instrumental to leading efforts to modernize process and systems in service of the 425,000+ active, vested, and retired State and local participating employees, teachers, police officers, judges, law enforcement officers, correctional officers, and legislators whom we serve.

In the scope of duties designated to the Member Services Administrator, in the short-term we anticipate immediate improvement of call center scripts, and greater proactive communication with members and payees; working in concert with Director of Communications to draft timely messaging. In the long-term, we expect the Administrator to implement modified processes using existing and emerging technologies, that will leverage staff, to maximize productivity and function.

Furthermore, part of the Agency's reorganization is the relocation of Employer Services to the Member Services division. Employer Services has been instrumental with the education and training of the designated personnel (Retirement Coordinators) to administer the benefit process at the local level of state agencies and participating governmental units that are part of the pension system. The unit has added an Employer Services Manager in FY 25 to aid the unit's Manager in better servicing the multitude of Employers. We anticipate with the added manager the Agency can be better responsive to the needs of employers, by providing a direct line of contact, and subsequently lessen call volume by employers to the Member Services' Contact Center. Additionally, the manager will direct the process to determine eligibility to enroll or withdraw from one of the retirement or pension systems of participating governmental units.

The Agency's Call Center performance measures for fiscal year 2024 are summarized below:

Performance Measure	**Performance Goal**	**FY2024 Performance Average**
Call Abandonment	Not to exceed 7.50%	16.69%
Average Wait Time	Not to Exceed 135 seconds	435 seconds