

G50L00
Maryland Supplemental Retirement Plans

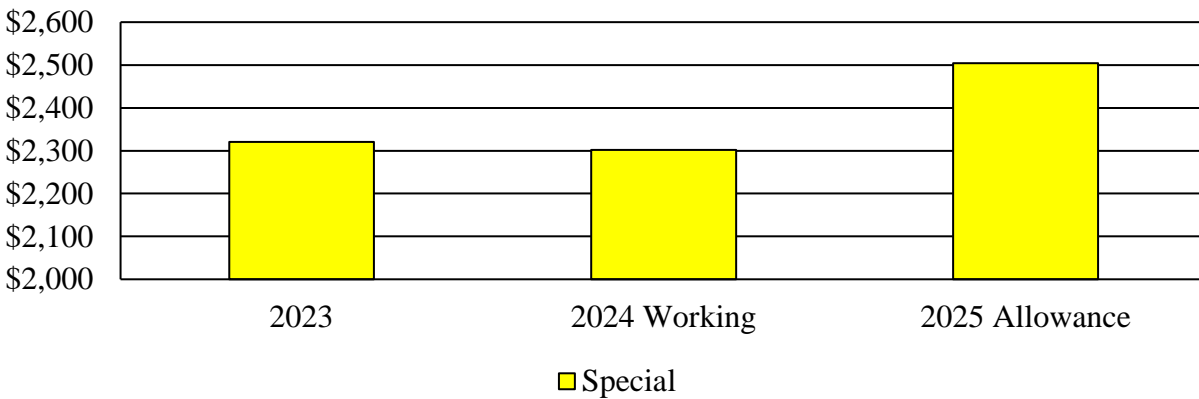
Program Description

The Maryland Teachers’ and State Employees’ Supplemental Retirement Plans (MSRP) are administered by a board of trustees, as established in Title 35 of the State Personnel and Pensions Article. The board has responsibility over four plan options: 401(k) and 457(b) plans for State employees; 403(b) plans for employees of State educational institutions; and a 401(a) State matching plan that was relaunched in fiscal 2024. MSRP staff support the board of trustees’ work in selecting investment options and overseeing operations. MSRP staff also provides educational programs and information to State employees and human resources personnel.

MSRP finances operations through a fee imposed on members’ accounts based on a percentage of assets in the plans and a flat-rate monthly charge. The board fee is currently composed of a 0.0425% asset fee and a monthly per account charge of \$0.50 on every account with at least \$500 (except for 401(a) match plan accounts). The board contracts with Nationwide Retirement Solutions, Inc. (Nationwide) for plan administration. The Nationwide contract requires a management fee of 0.0775% of assets. Therefore, the reported total participant fee is 0.11% of plan assets and a \$0.50 charge on specified accounts.

Operating Budget Summary

**Fiscal 2025 Budget Increases \$202,160, or 8.8%, to \$2.5 Million
(\$ in Thousands)**



Note: The fiscal 2024 impacts of statewide salary adjustments appear in the Statewide Account in the Department of Budget and Management (DBM), and adjustments are not reflected in this agency’s budget. The fiscal 2025 impacts of the fiscal 2024 statewide salary adjustments appear in this agency’s budget. The fiscal 2025 statewide salary adjustments are centrally budgeted in DBM and are not included in this agency’s budget.

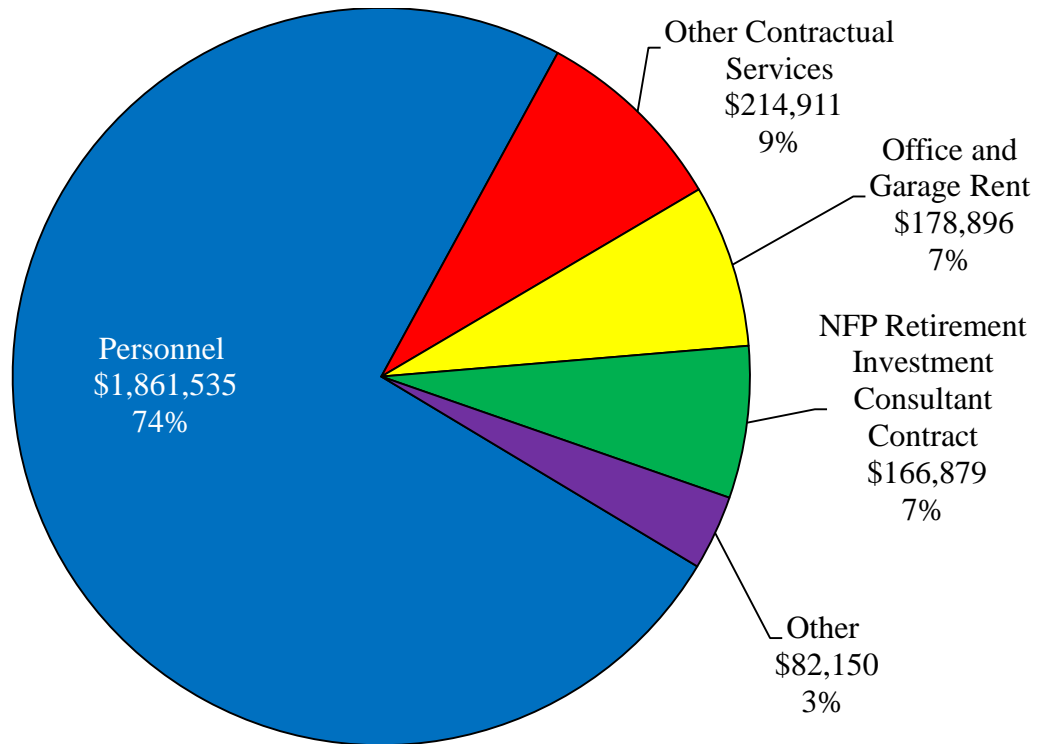
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Fiscal 2025 Overview of Agency Spending

As shown in **Exhibit 1**, nearly three-quarters of MSRP’s fiscal 2024 allowance is for agency personnel costs. Other large costs include funding for office and garage leases (7%) and contractual services (14%). MSRP’s largest contract is for investment consulting with NFP Retirement.

Exhibit 1
Overview of Agency Spending
Fiscal 2025 Allowance



Note: The fiscal 2025 statewide salary adjustments are centrally budgeted in the Department of Budget and Management and are not included in this agency’s budget.

Source: Governor’s Fiscal 2025 Budget Books

Proposed Budget Change

The fiscal 2025 allowance increases by \$202,160 in special funds, as shown in **Exhibit 2**.

**Exhibit 2
Proposed Budget
Maryland Supplemental Retirement Plans
(\$ in Thousands)**

How Much It Grows:	<u>Special Fund</u>	<u>Total</u>
Fiscal 2023 Actual	\$2,321	\$2,321
Fiscal 2024 Working Appropriation	2,302	2,302
Fiscal 2025 Allowance	<u>2,504</u>	<u>2,504</u>
Fiscal 2024-2025 Amount Change	\$202	\$202
Fiscal 2024-2025 Percent Change	8.8%	8.8%
Where It Goes:		<u>Change</u>
Personnel Expenses		
Salary increases and associated fringe benefits including fiscal 2024 COLA and increments		\$150
Other Changes		
Agency share of Statewide cost allocation		27
Wifi upgrade for MSRP offices		24
Other changes.....		1
Total		\$202

COLA: cost-of-living adjustment
MSRP: Maryland Supplemental Retirement Plans

Note: Numbers may not sum to total due to rounding. The fiscal 2024 impacts of statewide salary adjustments appear in the Statewide Account in the Department of Budget and Management (DBM), and adjustments are not reflected in this agency’s budget. The fiscal 2025 impacts of the fiscal 2024 statewide salary adjustments appear in this agency’s budget. The fiscal 2025 statewide salary adjustments are centrally budgeted in DBM and are not included in this agency’s budget.

Personnel Data

	<u>FY 23</u> <u>Actual</u>	<u>FY 24</u> <u>Working</u>	<u>FY 25</u> <u>Allowance</u>	<u>FY 24-25</u> <u>Change</u>
Regular Positions	14.00	14.00	14.00	0.00
Contractual FTEs	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Personnel	14.00	14.00	14.00	0.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	0.00	0.00%
Positions and Percentage Vacant as of 12/31/23	1.00	7.14%
Vacancies Above Turnover	1.00	

Key Observations

1. Renewal of State Match Drives Plan Participation Increase

More than a decade after the suspension of the State’s matching contributions to employees’ supplemental retirement accounts, Chapter 100 of 2023 mandated that the State provide an annual match of up to \$600 for State employees who participate in a supplemental retirement plan. In Section 19 of the fiscal 2024 Budget Bill, the General Assembly added \$11.95 million in general funds for this purpose, and the same amount is included in the fiscal 2025 allowance. In both years, the funding is budgeted in the Department of Budget and Management’s Statewide Program.

The match has driven significant growth in supplemental plan participation. The 401(a) plan, which is where the State’s match is deposited, added more than 2,000 new members in the first six months of the match being offered. In just the first three months of the match program, the State provided \$9.9 million to employee accounts. It should be noted that the contributions are matched in full as employees make their contributions, the State match is not prorated over the full year. However, MSRP estimates that the full fiscal 2024 cost of the match will be \$13.4 million, about \$1.4 million more than is budgeted for the program.

As shown in **Exhibit 3**, MSRP is projecting a significant increase in both plan membership and contributing members in fiscal 2024 and 2025.

Exhibit 3
MSRP Members and Contributing Members
Fiscal 2011-2025 Est.

<u>Fiscal Year</u>	<u>Total Members</u>	<u>% Change</u>	<u>% Eligible</u>	<u>Contributing Members</u>	<u>% Change</u>	<u>% Eligible</u>
2011	58,993		75%	36,184		46%
2012	58,121	-1.5%	76%	35,263	-2.5%	46%
2013	57,477	-1.1%	74%	34,373	-2.5%	44%
2014	57,486	0.0%	74%	33,932	-1.3%	44%
2015	58,311	1.4%	74%	34,302	1.1%	44%
2016	59,144	1.4%	76%	34,175	-0.4%	44%
2017	59,632	0.8%	77%	34,219	0.1%	44%
2018	60,696	1.8%	78%	34,278	0.2%	44%
2019	61,703	1.7%	79%	34,214	-0.2%	44%
2020	62,322	1.0%	80%	36,644	7.1%	44%
2021	61,655	-0.1%	79%	35,463	-3.2%	46%
2022	60,681	-1.7%	78%	31,629	-10.8%	41%
2023	61,026	0.6%	70%	34,500	9.1%	44%
2024 Est.	64,618	5.9%	73%	37,500	8.7%	48%
2025 Est.	68,533	6.1%	78%	41,250	10.0%	53%

MSRP: Maryland Supplemental Retirement Plans

Source: Governor’s Fiscal 2025 Budget Books

2. Fund Balance Near Target

As shown in **Exhibit 4**, MSRP closed fiscal 2023 with a fund balance of approximately \$422,000, down from just over \$1 million the prior year. The amount represents 18.5% of the agency’s operating expenses, which is slightly below the agency target of 25%. MSRP projects a fiscal 2024 fund balance of approximately \$631,000, or 27.4% of operating expenses.

Exhibit 4
Assets and Participants Fees
Fiscal 2021-2024 Est.

	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024 Est.</u>
Net Total Assets (\$ in Billions)	\$5.34	\$4.66	\$5.32	\$5.42
Plan Administrator Fees	\$4,892,555	\$4,091,193	\$3,783,753	\$3,857,344
As Percent of Assets*	0.09%	0.09%	0.07%	0.07%
Board Asset Fee	\$1,450,726	\$1,452,149	\$1,629,367	\$2,130,710
As Percent of Assets	0.03%	0.03%	0.03%	0.04%
\$0.50 Monthly Charge Per Account	483,602	382,806	380,192	380,946
One-time Settlement Revenue	63,974	0	0	0
Adjustment for Timing Differences**	-33,373	0	-344,634	0
Total Board Revenue	\$1,964,929	\$1,834,955	\$1,664,925	\$2,511,656
Operating Expenses	\$1,935,723	\$2,123,404	\$2,320,912	\$2,302,211
Adjustment for Timing Differences**	0	-208,896	-44,853	0
Total Operating Expenses	\$1,935,723	\$1,914,508	\$2,276,059	\$2,302,211
Carryover Balance	\$1,112,723	\$1,033,170	\$422,036	\$631,481
Carryover Balance as Percent of Operating Expenses	57.5%	54.0%	18.5%	27.4%

* Asset fee holidays from March 2021 to July 2021 and October 2022 to December 2022.

** Timing adjustment is needed to align with Financial Management Information System accounting. Expenditures are budgeted on a fiscal year, while plans and revenues are on calendar years.

Note: Plan Administrator Fees are provided to Nationwide Retirement Solutions, Inc. directly and are not included in the calculation of the fund balance.

Source: Maryland Supplemental Retirement Plans; Department of Legislative Services

3. Plan Performance Short of Benchmarks

As shown in **Exhibit 5**, MSRP plan options lost 13.3% in fiscal 2023, slightly worse than plan benchmarks. Three- and 10-year returns also performed worse than benchmarks. **MSRP should comment on the reason for the plans' poor recent performance.**

Exhibit 5
MSRP Average Rates of Return
Fiscal 2021-2023

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>
Annual Average Rates of Return as of June 30, 2023				
MSRP Options	-13.3%	3.6%	5.2%	7.0%
Benchmark Indices	-12.6%	4.1%	5.0%	7.6%
Annual Average Rates of Return as of June 30, 2022				
MSRP Options	-11.1%	5.8%	6.9%	8.4%
Benchmark Indices	-10.9%	5.7%	6.6%	8.1%
Annual Average Rates of Return as of June 30, 2021				
MSRP Options	30.7%	13.3%	12.8%	10.3%
Benchmark Indices	12.9%	12.9%	12.4%	10.0%

MSRP: Maryland Supplemental Retirement Plans

Source: Governor's Fiscal 2025 Budget Books

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

**Appendix 1
Object/Fund Difference Report
Maryland Supplemental Retirement Plans**

<u>Object/Fund</u>	<u>FY 23 Actual</u>	<u>FY 24 Working Appropriation</u>	<u>FY 25 Allowance</u>	<u>FY 24 - FY 25 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	14.00	14.00	14.00	0.00	0%
Total Positions	14.00	14.00	14.00	0.00	0%
Objects					
01 Salaries and Wages	\$ 1,704,375	\$ 1,711,848	\$ 1,861,535	\$ 149,687	8.7%
02 Technical and Special Fees	2,625	3,850	5,100	1,250	32.5%
03 Communication	19,962	6,250	12,600	6,350	101.6%
04 Travel	18,786	27,074	28,000	926	3.4%
07 Motor Vehicles	10,010	11,760	11,760	0	0%
08 Contractual Services	353,792	335,484	381,790	46,306	13.8%
09 Supplies and Materials	30,757	20,000	12,724	-7,276	-36.4%
11 Equipment – Additional	6,804	12,885	12,885	0	0%
13 Fixed Charges	173,801	173,060	177,977	4,917	2.8%
Total Objects	\$ 2,320,912	\$ 2,302,211	\$ 2,504,371	\$ 202,160	8.8%
Funds					
03 Special Fund	\$ 2,320,912	\$ 2,302,211	\$ 2,504,371	\$ 202,160	8.8%
Total Funds	\$ 2,320,912	\$ 2,302,211	\$ 2,504,371	\$ 202,160	8.8%

Note: The fiscal 2025 allowance does not include statewide salary adjustments budgeted within the Department of Budget and Management.