

**Maryland Senate
Budget & Taxation
Committee**

January 23, 2013

**Maryland State Retirement
and Pension System**

Summary of the June 30, 2012 Actuarial Valuation

Year to Year Comparison of Results

(STATE ONLY except Total Funded Ratios, \$ in Millions)

	Teachers' Combined System *		Employees' Combined System *		State Police	Judges	LEOPS	Total
FY 2014 Contribution Rate	14.71%		14.05%		66.71%	50.92%	52.47%	15.43%
FY 2014 Contr. Rate (w. Reinv. Savings)	17.94%		16.84%		71.85%	50.92%	57.72%	18.54%
FY 2013 Contribution Rate	13.29%		12.29%		61.21%	61.18%	46.81%	13.85%
FY 2013 Contr. Rate (w. Reinv. Savings)	15.30%		14.05%		64.57%	61.18%	50.14%	15.80%
2012 Actuarial Value of Assets	\$ 22,524	\$ 9,665	\$ 1,135	\$ 330	\$ 436	\$ 34,089		
2012 Unfunded Actuarial Liability	\$ 11,729	\$ 6,749	\$ 692	\$ 91	\$ 357	\$ 19,618		
2011 Unfunded Actuarial Liability	\$ 11,116	\$ 6,501	\$ 669	\$ 139	\$ 345	\$ 18,771		
Funded Ratios								
2012 (Total includes Municipal)	65.8%	58.9%	62.1%	78.4%	55.0%	64.4%		
2011 (Total includes Municipal)	66.3%	59.4%	62.0%	67.8%	53.7%	64.7%		

* Includes effect of corridor.

Municipal Actuarial Value of Assets of \$3.159 Million and Municipal Unfunded Actuarial Liability of \$1.003 Million are also included in the development of the Total Funded Ratio of 64.4%. State only 2012 Funded Ratio is 63.5%.

Prepared by: Gabriel, Roeder, Smith & Company

Budgeted Employer Contribution Rates Year to Year Comparison (\$ Millions)

	(STATE ONLY, \$ in Millions)							
	Teachers' Combined System		Employees' Combined System		State Police	Judges	LEOPS	Total
FY2014 Contribution Rate	17.94%	16.84%	71.85%	50.92%	57.72%	18.54%		
FY2013 Contribution Rate	15.30%	14.05%	64.57%	61.18%	50.14%	15.80%		
Year over Year Change	2.64%	2.79%	7.28%	-10.26%	7.58%	2.74%		
FY2014 Illustrative Contribution [^]	\$ 926	\$ 444	\$ 55	\$ 21	\$ 46	\$ 1,492		
FY2014 Reinvested Savings	\$ 203	\$ 88	\$ 4	\$ -	\$ 5	\$ 300		
FY2014 Total Illustrative Contr.	\$ 1,129	\$ 532	\$ 59	\$ 21	\$ 51	\$ 1,792		
FY2013 Illustrative Contribution#	\$ 852	\$ 391	\$ 49	\$ 25	\$ 41	\$ 1,358		
FY2013 Reinvested Savings	\$ 129	\$ 56	\$ 3	\$ -	\$ 3	\$ 191		
FY2013 Total Illustrative Contr.	\$ 982	\$ 447	\$ 51	\$ 25	\$ 44	\$ 1,549		
Year over Year Change	\$ 147	\$ 85	\$ 7	\$ (4)	\$ 7	\$ 243		

[^] FY2014 Contribution based on payroll as of June 30, 2012, projected to FY2013 for TCS and FY2014 for all other systems. FY2014 Contribution for TCS is \$1.159 Million based on payroll projected to FY2014.

FY2013 Contribution based on payroll as of June 30, 2011, projected to FY2012 for TCS and FY2013 for all other systems. FY2013 Contribution for TCS is \$1.013 Million based on payroll projected to FY2013.

Totals may not add due to rounding.

Calculation of Contribution Rate Attributable to Reinvestment Amounts

	(STATE ONLY, \$ in Millions)						Total
	Teachers' Combined System	Employees' Combined System	State Police	Judges	LEOPS		
% of Total Pension Reform Savings#	67.7%	29.4%	1.4%	0.0%	1.5%		100.0%
Reinvested Savings	\$203.1	\$88.1	\$4.2	\$0.0	\$4.6		\$300.0
FY 2014 Contributions							
Illustrated Dollar Contributions	\$ 925.8	\$ 444.0	\$ 54.6	\$ 21.4	\$ 46.2	\$	\$ 1,492.0
Reinvested Savings	<u>203.1</u>	<u>88.1</u>	<u>4.2</u>	<u>-</u>	<u>4.6</u>		<u>300.0</u>
Total Illustrated Contributions	1,128.9	532.1	58.8	21.4	50.8		1,792.0
FY 2013 Illustrated Contributions'	\$ 982.0	\$ 447.0	\$ 51.0	\$ 25.0	\$ 44.0	\$	\$ 1,549.0
Employer Contribution Rate	14.71%	14.05%	66.71%	50.92%	52.47%		15.43%
Reinvested Savings Rate [^]	<u>3.23%</u>	<u>2.79%</u>	<u>5.14%</u>	<u>0.00%</u>	<u>5.25%</u>		<u>3.11%</u>
Total Contribution Rate	17.94%	16.84%	71.85%	50.92%	57.72%		18.54%

Based on Calculations from June 30, 2011 Valuation.

[^] Rate calculated based on allocated reinvested dollars and FY 2014 projected payroll. It is our understanding that the Retirement Agency will monitor contributions to ensure that the System receives the proper amount of reinvested savings during Fiscal Year 2014.

Cost Sharing With Local School Boards

Cost Sharing With Local School Boards

- Chapter 1 of the first special session of 2012 requires local school boards to pay the employer “normal cost” for active members of the Teachers’ Retirement System (TRS) and the Teachers’ Pension System (TPS).
- The employer normal cost represents the employer’s share of the payment that is necessary to fund the benefits that members accrue in a given year.
- Two of the primary components of calculating the employer normal cost are salary and the benefit multiplier in effect for that year.

Cost Sharing With Local School Boards

- Normal cost is one of two components of the total employer contribution for pension benefits; the other being the amount necessary to pay down liabilities accrued in prior years.
- Normal cost is not subject to the volatilities of the gains and losses of the capital market the way unfunded liabilities are.
- The State will continue to maintain responsibility for unfunded liabilities and for the employer's share of pension costs for libraries and community colleges.

Cost Sharing With Local School Boards

- Chapter 1 established a four-year phase-in for local school boards to begin paying the employer normal cost for the TRS and TPS.
- The total local share for fiscal 2013 to the local school boards will be approximately \$136.6 million, or 50% of the total employer normal cost.
- By fiscal 2017, local school boards will be responsible for 100% of the employer normal cost for the TRS and TPS.

Allocation of Contribution to Local Employers

		Teachers Combined System			
		FY2014 Contribution (\$ in Millions)			
		<u>Local</u>			
	<u>% of Pay</u>	<u>Total</u>	<u>Employers#</u>	<u>State</u>	
Employer Normal Cost	5.83%	\$ 366.9	\$ 173.2	\$ 193.7	
UAAL Amortization*	8.88%	558.9	-	558.9	
Reinvested Savings	<u>3.23%</u>	<u>203.1</u>	-	<u>203.1</u>	
Total	17.94%	\$ 1,128.9	\$ 173.2	\$ 955.7	

* Includes impact of corridor funding.

Amounts are taken from Senate Bill 1301.

GASB Changes

GASB Changes - Overview

- New GASB Accounting Standards No. 67 and No. 68 will create accounting results separate from funding results
 - Funding calculations are not impacted
 - GASB created a new Net Pension Liability (NPL) and Pension Expense

GASB Changes - Overview

- Requires recognition of a version of unfunded liability on each employer's balance sheet
 - Formerly only in footnotes
- For accounting purposes, changes calculation of annual cost
 - No longer equal to required contribution (ARC)
- Meant to improve transparency and comparability
 - market assets, single funding method, rigid amortization rules

GASB Changes - Overview

- **Key differences for employer accounting**
 - New GASB rules do not allow smoothing of assets
 - New GASB rules may require lower (or blended) discount rate to value liabilities
- **Key takeaways**
 - New GASB rules do NOT change the funding contribution rate or methods
 - New GASB rules do provide a second set of actuarial numbers

GASB Changes - Overview

- **Approved Effective Dates**
 - Trust's Financial Statement No. 67 – reporting periods beginning after June 15, 2013
 - Employer's financial Statement No. 68 – reporting periods beginning after June 15, 2014

Pension Reform

Projected vs. Actual Results

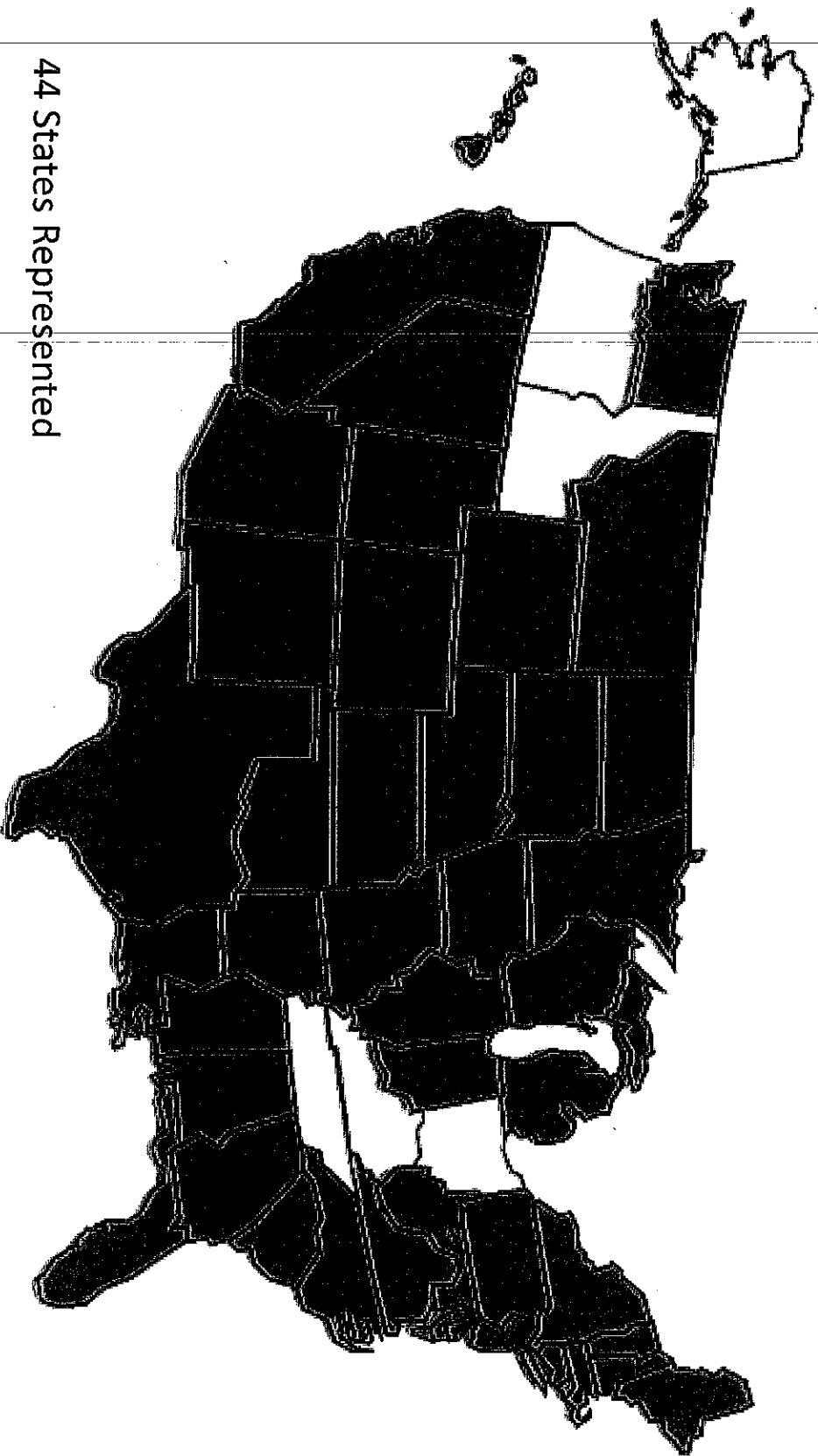
		(STATE ONLY, \$ in Millions)							
		Teachers' Combined System		Employees' Combined System		State Police	Judges	LEOPS	Total
Funded Ratio as of June 30, 2012									
Actual		65.8%	58.9%	62.0%	78.6%	55.0%	63.5%		
2010 Projected*		62.4%	56.0%	57.8%	63.0%	53.4%	60.1%		
Difference		3.4%	2.9%	4.2%	15.6%	1.6%	3.4%		
Projected Year 80% Funded is Reached									
2012 Projected	2022		2026	2027	2013	2020	2023		
2010 Projected*	2023		2025	2027	2021	2022	2024		
Difference	-1		1	0	-8	-2	-1		
Projected Year 100% Funded is Reached									
2012 Projected	2031		2032	2032	2027	2029	2031		
2010 Projected*	2032		2031	2034	2036	2031	2031		
Difference	-1		1	-2	-9	-2	0		

* Projected figures from the G-4 Reform study dated April 20, 2011. Based on the June 30, 2010 valuation. Difference in funded ratio is due to adoption of new demographic assumptions effective June 30, 2012, and actual experience that was different than projected under the actuarial assumptions.

National Overview

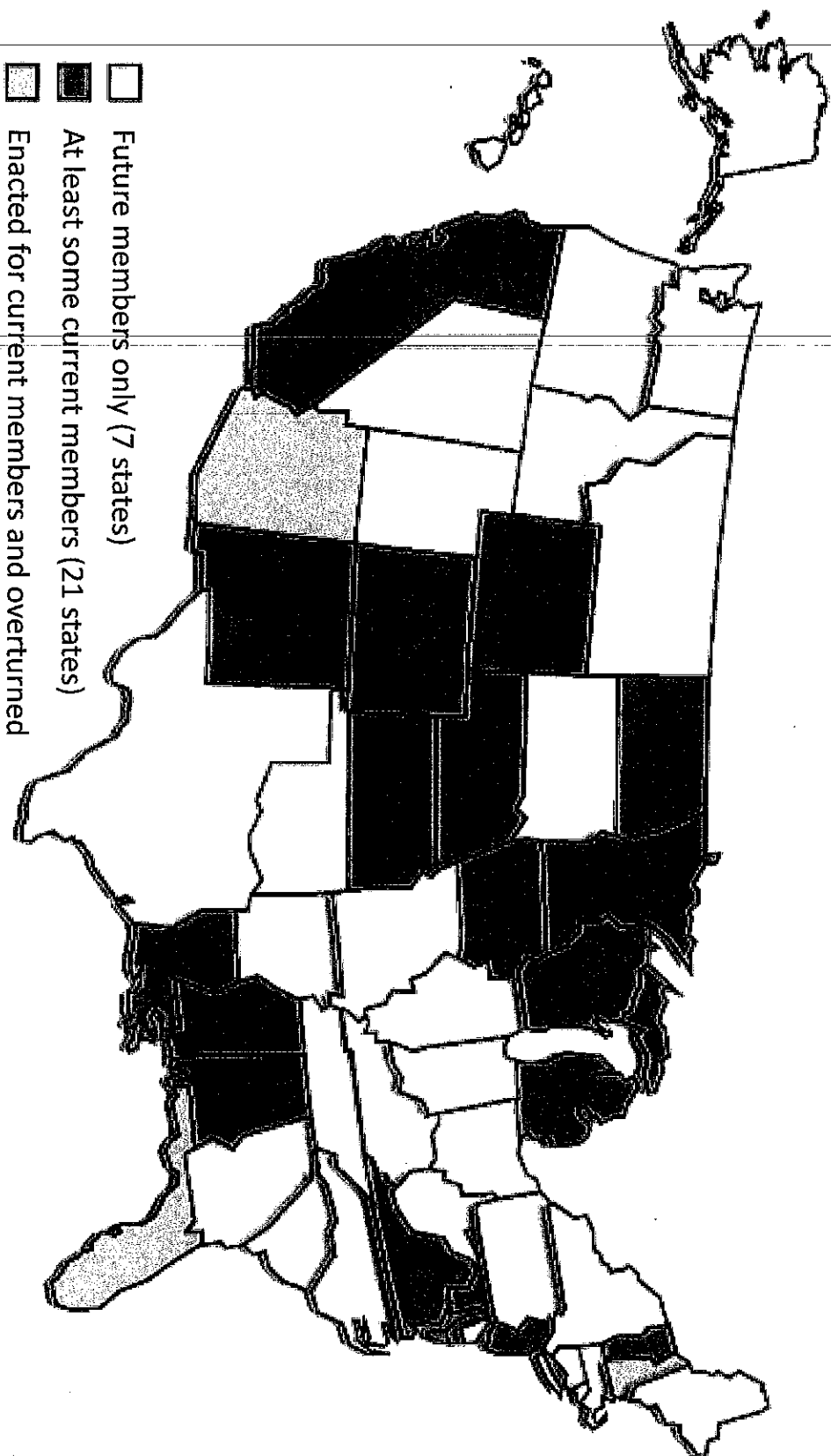
- From 2009 to date, 44 states have revised their state retirement plans for general employees and teachers – some of them more than once.
- In 2009, 10 states.
- In 2010, 21 states.
- In 2011, 32 states.
- In 2012, 7 states.

Major Pension Legislation 2009 – 2012

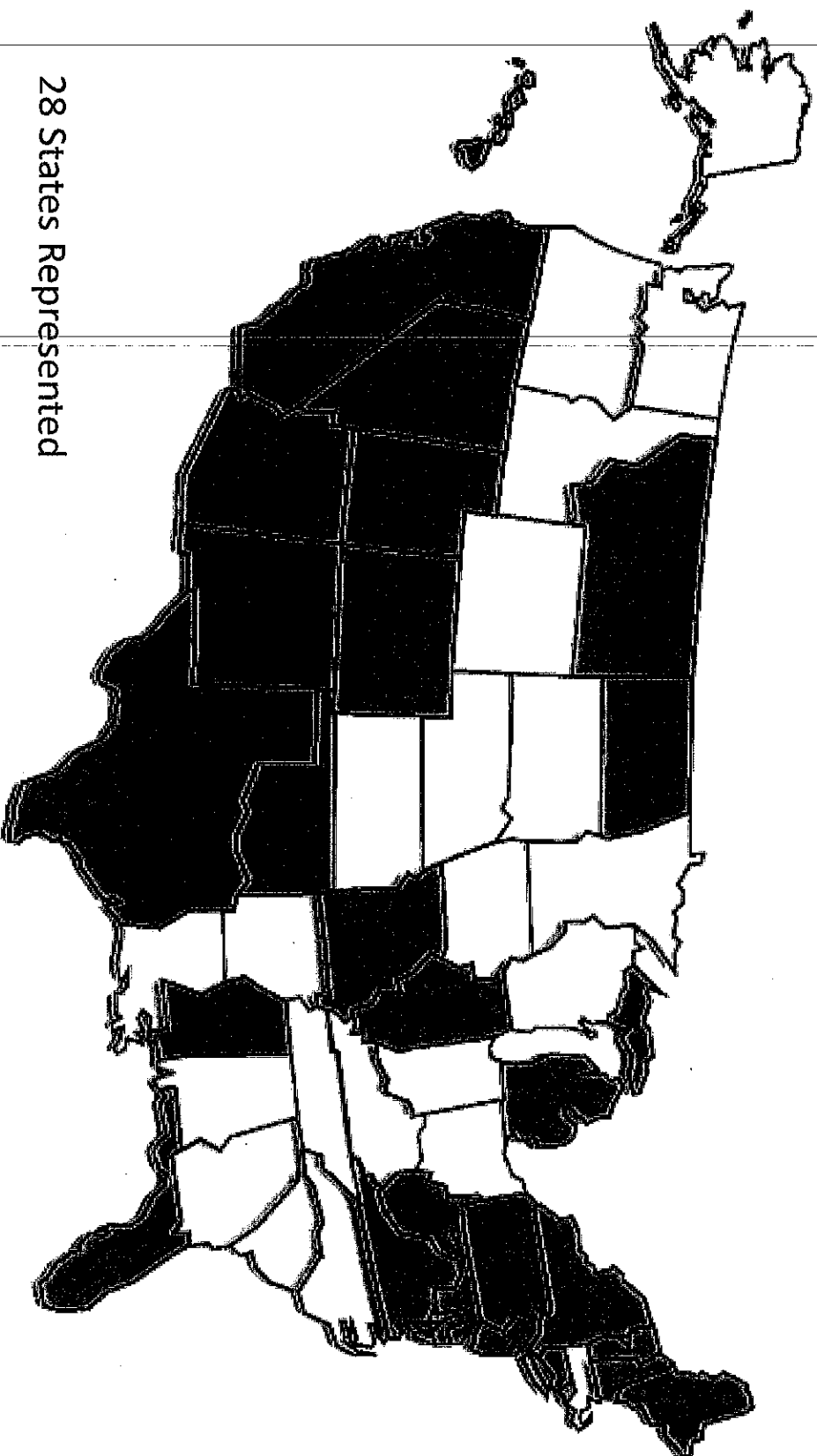


44 States Represented

Increases in Employee Contributions 2009 – 2011

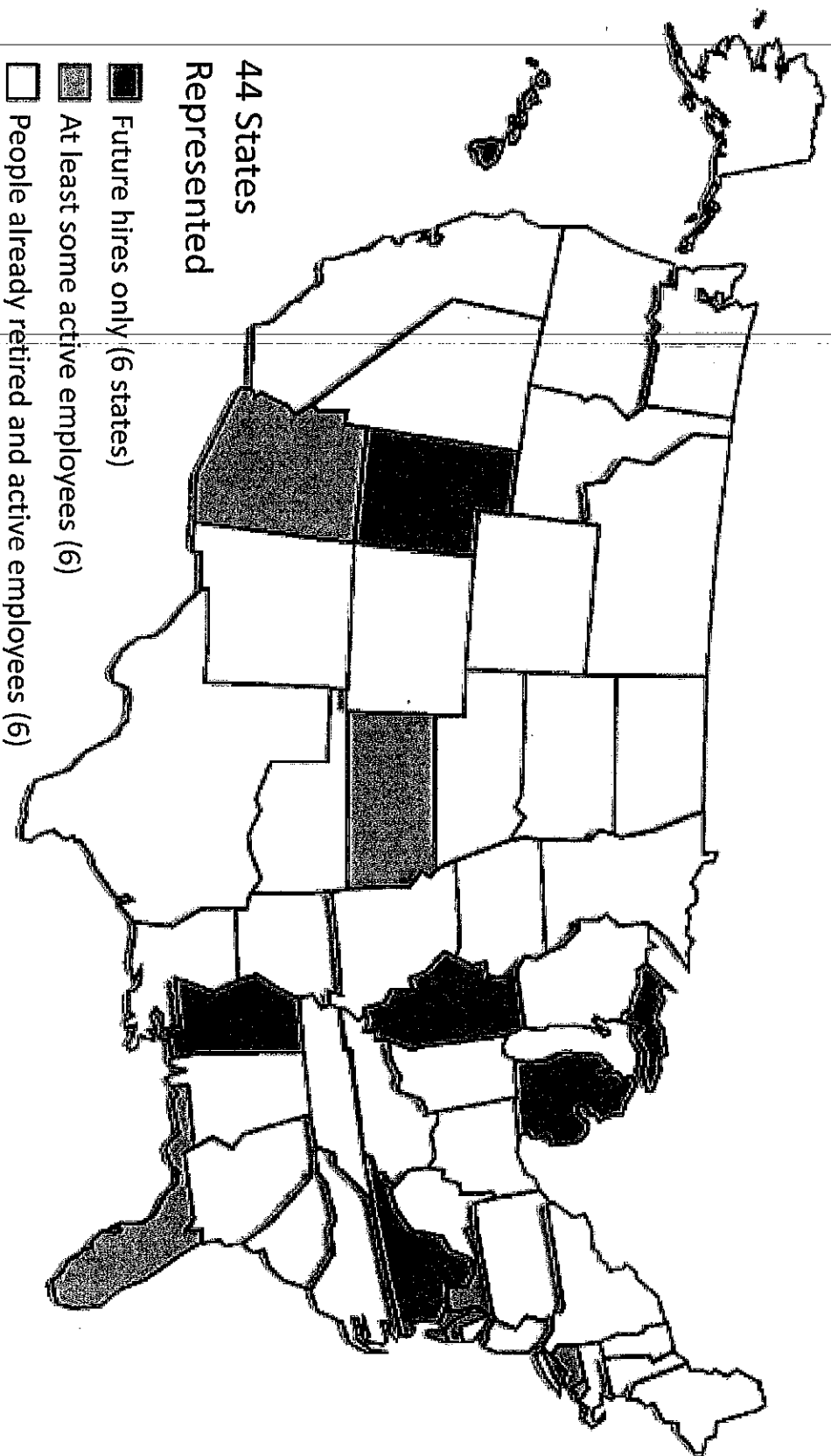


Higher Age and Service Requirements for Normal Retirement, for New Members, 2009 – 2011



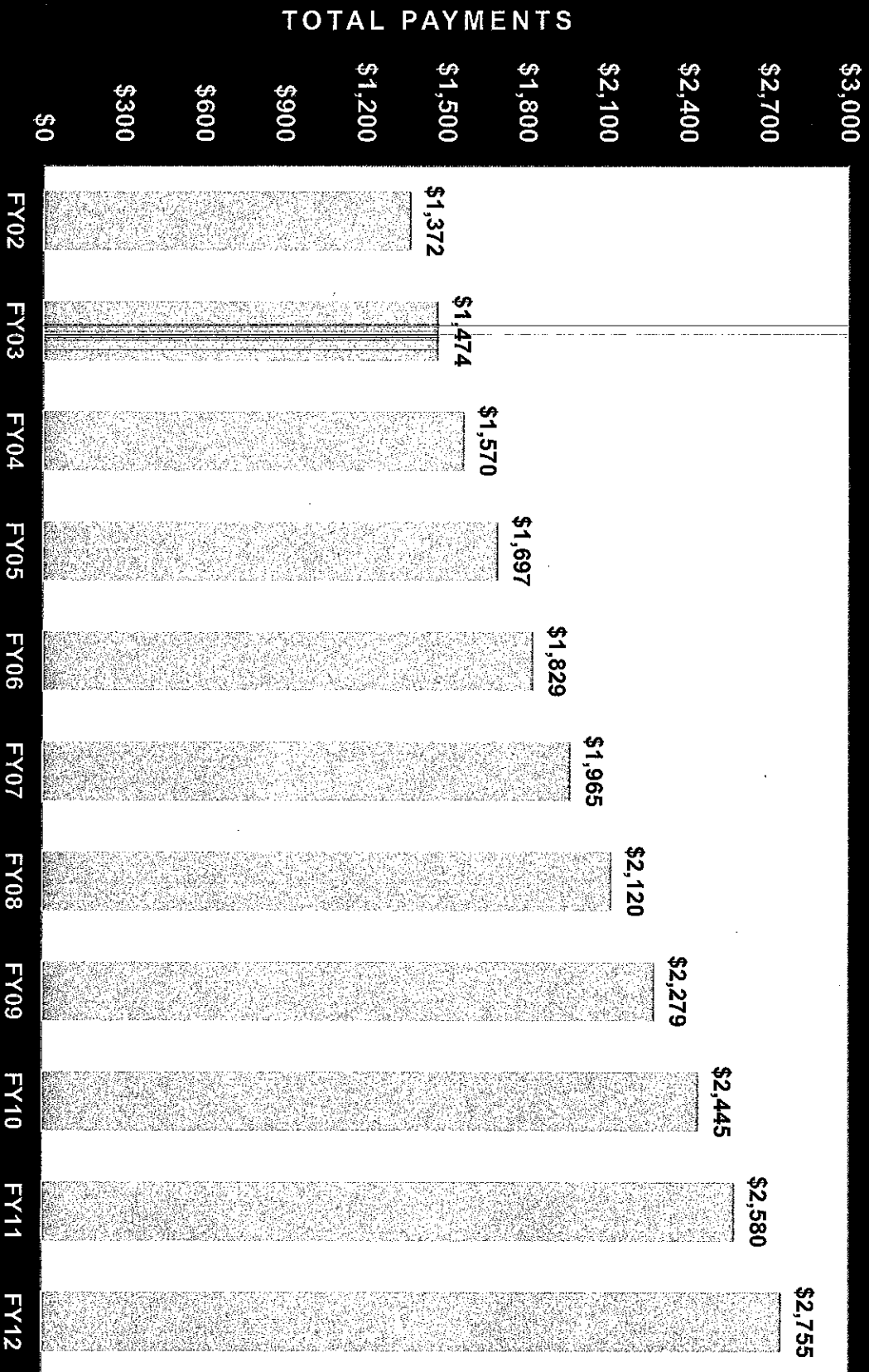
28 States Represented

Reductions in Post-Retirement Benefit Increases Enacted in 2010 and 2011

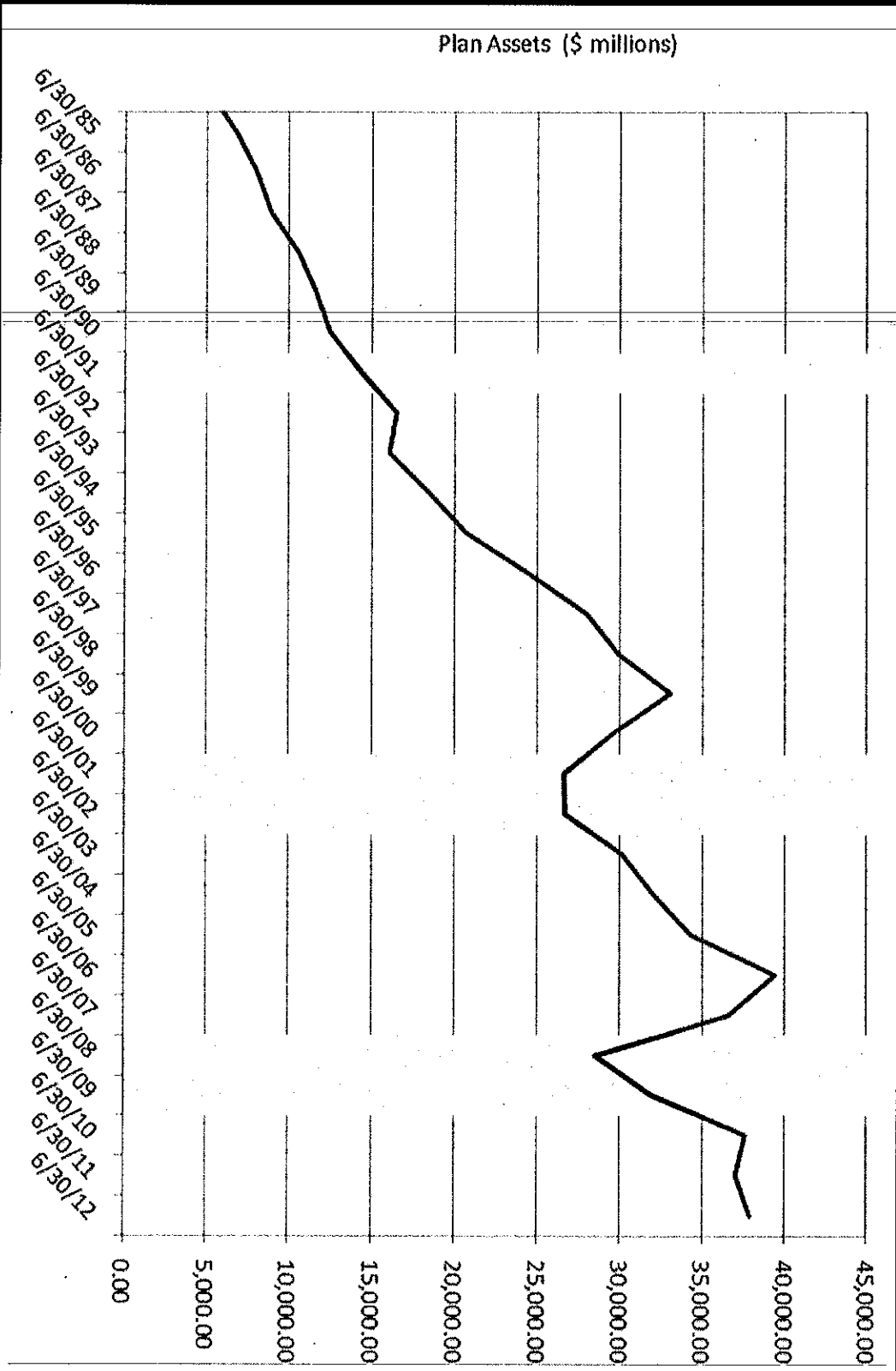


Investments

Annual Benefit Payments (Millions)



Evolution of Plan Assets Over 25 years



Total Returns as of 6/30/12 except where noted

The fund has returned:

- 7.9% annualized over 25 years
- 5.9% annualized over the last 10 years
- 7.8% annualized over the previous 10 years
- 11.2% annualized over the last 3 years
- 0.4% for FY12
- 7.1% for FYTD (6 months)*
- 12.9% for one year*

*as of 12/31/12

Asset Allocation

Total Fund Asset Allocation

