Maryland State Retirement and Pension System

The Future of the System's Participating Governmental Units

Defined Contribution Plans: Pros

- Easy to calculate the liability (% of gross pay)
- No concern over market returns for employer (ER)
- Easy to understand for the employee (EE) who saves diligently and invests well
- Portable
- EE control over investments, but higher fees

Defined Contribution Plans: Cons

- Saving habits are generally poor
- $100,000 saved is well above the median yet no hope of the $ outlasting them
  - Public assistance?
- EE lack investment expertise
- Can’t help unexpected problems; early disability or death
- Mandated minimum benefit if no Social Security

Defined Benefit Plans: Pros

- Definite monthly income for retiree; lasts as long as they do
  - Not dependent on investment expertise or fortuitous timing
- Sponsor can withstand market fluctuations better (usually)
- Provide same level of income at roughly half the cost
  - Superior investment returns/pooled longevity risk
  - Lesser benefit per $ of contribution under DC

Defined Benefit Plans: Pros

- Benefits based on the experience of thousands of people; allows for death and disability benefits for the few who encounter those situations
- “Golden handcuff” for senior people
- Attraction/retention issues?

Defined Benefit Plans: Cons

- Responsibility of adequacy of assets to pay future benefits is with employer
  - ER doesn’t know its potential liability with certainty
- Not portable for EE

Choosing a DB in favor of a DC

- High transition costs
  - MN, MO, NV have all considered and rejected
  - Estimated $2.76B over 10 years for MN
  - Unfunded liabilities remain
  - Must be paid for over a shorter period (GASB)
- Ongoing “normal cost” for existing DB plan is less than cost of future DC
  - (based on 5% contribution by ER and EE)

Choosing a DB in favor of a DC

- Closed DB requires higher cash outflow
  - Invested at lower risk/lower return
- Increases actuarial accrued liabilities significantly
- Investment, longevity, inflation risk transferred to the EE

Withdrawal Process

- Legislative body of a PGU may withdraw a “group” of employees from the State system
- “Group” must be either
  - All employees or
  - Another homogeneous unit of at least 10 employees
- “Withdrawal” means that all new employees of the “group” will join the new system

Current employees of the “group” must be given an ELECTION

- Join the new system

  OR

- Remain in the existing system

Withdrawals

- Take effect at the end of the fiscal year, June 30
- State Retirement Agency (SRA) must receive the resolution of the legislative body of the PGU choosing to withdraw
- Election to withdraw is irrevocable

PGU is required to pay for one valuation to be performed by the SRA's actuary

- Valuation will determine
  - How many employees are remaining in the old system and how many are transferring to the new system
  - The value of assets to be transferred to the new system
  - The amount of the "withdrawal liability" to be paid for those employees who remain

PGU may request and pay for a preliminary valuation

- PGU will receive an estimate of the cost of closing the system to new members

Transfer of funds upon withdrawal

- Accumulated member contributions of the transferring employees shall be transferred and credited to the account of those employees
- Board shall also transfer to the new system the assets that are allocable to the withdrawn employees

Payments due the system upon withdrawal

- PGU shall continue to make the normal employer contributions on behalf of those employees who elect to remain in the old system
- In addition to the normal employer contributions, PGU is obligated to pay a "withdrawal liability"
  - Withdrawal liability is PGU's continuing obligation to pay its share of funding for the retirement and pension benefits owed
  - Withdrawal liability is paid annually